DUKE UNIVERSITY LIBRARY
DURHAM, N. C.

C

Rec'd Dec. 18, 1902

Digitized by the Internet Archive
in 2017 with funding from
Duke University Libraries

https://archive.org/details/worksofdavidrica01rica

# THE WORKS

OF

# DAVID RICARDO.

WITH

A NOTICE OF THE LIFE AND WRITINGS OF THE AUTHOR,

By J. R. M^cCULLOCH,
MEMBER OF THE INSTITUTE OF FRANCE.

New Edition.

WITH A PORTRAIT.

18400

LONDON:
JOHN MURRAY, ALBEMARLE STREET.
1888.

330.2
R 484W

# ADVERTISEMENT.

THE high esteem in which Mr Ricardo's works are held, and their increasing scarcity, have occasioned their being collected, and published in this volume. It contains, in addition to the "Principles of Political Economy and Taxation," and his detached Tracts, his Essays on the Funding System and on Parliamentary Reform, and his Speech on the Ballot, originally published in the Supplement to the Encyclopædia Britannica and in the Scotsman. A short Sketch of his Life and Writings is prefixed to the work; and an Index is subjoined to facilitate its consultation.

LONDON, *April* 1846.

18400

R488
Dec 18, 1902
18400

# CONTENTS.

Page

LIFE, . . . . . xv

PRINCIPLES OF POLITICAL ECONOMY AND TAXATION.

PREFACE, . . . . . 5

ADVERTISEMENT, . . . . . 7

CHAPTER I.

ON VALUE, . . . . . 9

SECTION I.

The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour, . . . 9

SECTION II.

Labour of different qualities differently rewarded. This no cause of variation in the relative value of commodities, . . 14

SECTION III.

Not only the labour applied immediately to commodities affect their value, but the labour also which is bestowed on the implements tools, and buildings with which such labour is assisted, . 16

SECTION IV.

The principle that the quantity of labour bestowed on the production of commodities regulates their relative value, considerably modified by the employment of machinery and other fixed and durable capital, 20

Page

Section V.

The principle that value does not vary with the rise or fall of wages, modified also by the unequal durability of capital, and by the unequal rapidity with which it is returned to its employer, . . 25

Section VI.

On an invariable measure of value, . . . . . 28

Section VII.

Different effects from the alteration in the value of money, the medium in which *Price* is always expressed, or from the alteration in the value of the commodities which money purchases, . . 30

CHAPTER II.

On Rent, . . . . . 34

CHAPTER III.

On the Rent of Mines, . . . . . 45

CHAPTER IV.

On Natural and Market Price, . . . . . 47

CHAPTER V.

On Wages, . . . . . 50

CHAPTER VI.

On Profits, . . . . . 60

CHAPTER VII.

On Foreign Trade, . . . . . 72

CHAPTER VIII.

On Taxes, . . . . . 87

CHAPTER IX.

Taxes on Raw Produce, . . . . . 91

CHAPTER X.

Taxes on Rent, . . . . . 102

CHAPTER XI.

Tithes, . . . . . 104

Page

CHAPTER XII.

Land Tax, . . . . . 107

CHAPTER XIII.

Taxes on Gold, . . . . . 113

CHAPTER XIV.

Taxes on Houses, . . . . . 119

CHAPTER XV.

Taxes on Profits, . . . . . 122

CHAPTER XVI.

Taxes on Wages, . . . . . 129

CHAPTER XVII.

Taxes on other Commodities than Raw Produce, . . 146

CHAPTER XVIII.

Poor Rates, . . . . . 155

CHAPTER XIX.

On Sudden Changes in the Channels of Trade, . . 159

CHAPTER XX.

Value and Riches, their Distinctive Properties, . . 165

CHAPTER XXI.

Effects of Accumulation on Profits and Interest, . 174

CHAPTER XXII.

Bounties on Exportation, and Prohibitions of Importation, 181

CHAPTER XXIII.

On Bounties on Productions, . . . . 193

CHAPTER XXIV.

Doctrine of Adam Smith concerning the Rent of Land, . 197

CHAPTER XXV.

On Colonial Trade, . . . . . 204

Page

CHAPTER XXVI.

On Gross and Net Revenue, . . . . 210

CHAPTER XXVII.

On Currency and Banks, . . . . . 213

CHAPTER XXVIII.

On the Comparative Value of Gold, Corn, and Labour, in Rich and Poor Countries, . . . . . 226

CHAPTER XXIX.

Taxes Paid by the Producer, . . . . . 230

CHAPTER XXX.

Of the Influence of Demand and Supply on Prices, . 232

CHAPTER XXXI.

On Machinery, . . . . . 235

CHAPTER XXXII.

Mr Malthus's Opinions on Rent, . . . . . 243

HIGH PRICE OF BULLION A PROOF OF THE DEPRECIATION OF BANK NOTES, . . 261

Appendix to Ditto, . . . . . 291

REPLY TO MR BOSANQUET'S PRACTICAL OBSERVATIONS ON THE REPORT OF THE BULLION COMMITTEE, 303

CHAPTER I.

Preliminary Observations—Mr Bosanquet's Objections to the Conclusions of the Bullion Committee briefly stated, 305

CHAPTER II.

Mr Bosanquet's Alleged Facts, drawn from the History of the State of Exchange, considered, . . . . 308

Section I.

Exchange with Hamburgh, . . . . . 308

Section II.

Exchange with Paris, . . . . . 316

Page

SECTION III.

Supposed fact of a Premium on English Currency in America.—Favourable Exchange with Sweden, . . . . 319

SECTION IV.

A Statement concerning the Par of Exchange, by the Bullion Committee, examined, . . . . . 321

CHAPTER III.

MR BOSANQUET'S ALLEGED FACTS, IN SUPPOSED REFUTATION OF THE CONCLUSION, THAT A RISE IN THE MARKET PRICE OF BULLION ABOVE THE MINT PRICE PROVES A DEPRECIATION OF THE CURRENCY, CONSIDERED, . . . . . 323

SECTION I.

That the Negation of the above conclusion implies the impossibility of melting or exporting English coin—an impossibility contended for by nobody, . . . . . 323

SECTION II.

Consequences which would follow on the Supposition that the Currencies of other Countries (exclusive of England), were diminished or increased one half, . . . . . 326

SECTION III.

The trifling Rise in the Price of Gold on the Continent owing solely to a Variation in the Relation of Silver to Gold, . . . 328

SECTION IV.

Failure ascribed to Mr Locke's Theory relative to the Recoinage in 1696, . . . . . 332

CHAPTER IV.

MR BOSANQUET'S OBJECTIONS TO THE STATEMENT, THAT THE BALANCE OF PAYMENTS HAS BEEN IN FAVOUR OF GREAT BRITAIN, EXAMINED, 334

CHAPTER V.

MR BOSANQUET'S ARGUMENT TO PROVE THAT THE BANK OF ENGLAND HAS NOT THE POWER OF FORCING THE CIRCULATION OF BANK NOTES, CONSIDERED, . . . . . 340

Page

CHAPTER VI.

Observations on the Principles of Seignorage, . . 345

CHAPTER VII.

Mr Bosanquet's Objections to the Proposition, that the Circulation of the Bank of England regulates that of the Country Banks, considered, . . . . 348

CHAPTER VIII.

Mr Bosanquet's Opinion, that Years of Scarcity and Taxes have been the sole cause of the Rise of Prices—Excessive Circulation no cause, considered, . . . 354

CHAPTER IX.

Mr Bosanquet's Opinion, that evil would result from the Resumption of Cash Payments, considered, . . 360

Appendix to the Reply to Mr Bosanquet, . . . 363

ESSAY ON THE INFLUENCE OF A LOW PRICE OF CORN ON THE PROFITS OF STOCK . . . 367

Introduction, . . . . . 369

PROPOSALS FOR AN ECONOMICAL AND SECURE CURRENCY, WITH OBSERVATIONS ON THE PROFITS OF THE BANK OF ENGLAND, . . . 391

Introduction, . . . . . 393

Section I.

In the Medium of Circulation, Cause of Uniformity is Cause of Goodness, . . . . . 397

Section II.

Use of a Standard Commodity—Objections to it considered, . 400

Section III.

The Standard, its Imperfections—Variations below without allowance of the countervailing Variations above the Standard, their Effects—Correspondence with the Standard the rule for Paper Money, 402

Page

SECTION IV.

An Expedient to bring the English Currency as near as possible to perfection, . . . . . 404

SECTION V.

A Practice which creates a great mass of Mercantile Inconvenience—Remedy proposed, . . . . . 410

SECTION VI.

The Public Services of the Bank excessively overpaid—Remedy proposed, . . . . . 411

SECTION VII.

Bank Profits and Savings—Misapplication—Proposed Remedy, 423

APPENDIX TO PROPOSALS FOR AN ECONOMICAL AND SECURE CURRENCY, 437

ON PROTECTION TO AGRICULTURE, 455

SECTION I.

On Remunerating Price, . . . . 459

SECTION II.

On the Influence of a Rise of Wages on the Price of Corn, . 461

SECTION III.

On the Effects of Taxes imposed on a particular Commodity, 463

SECTION IV.

On the Effect of Abundant Crops on the Price of Corn, . 465

SECTION V.

On the Effect produced on the Price of Corn by Mr Peel's Bill for restoring the ancient Standard, . . . . 467

SECTION VI.

On the Effects of a Low Value of Corn on the Rate of Profits, 475

SECTION VII.

Under a system of Protecting Duties, established with a view to give the Monopoly of the Home Market to the Home Grower of Corn, Prices cannot be otherwise than fluctuating, . . 478

Page

SECTION VIII.

On the Project of advancing Money on Loan, to Speculators in Corn, at a low Interest, . . . . . 486

SECTION IX.

Can the present State of Agricultural Distress be attributed to Taxation? . . . . . 487

CONCLUSION, . . . . . 491

APPENDIX TO PROTECTION TO AGRICULTURE, . . . 495

PLAN FOR THE ESTABLISHMENT OF A NATIONAL BANK, . . . . . 499

ESSAY ON THE FUNDING SYSTEM, . . . . 515

OBSERVATIONS ON PARLIAMENTARY REFORM, . 549

SPEECH ON VOTING BY BALLOT, . . . . 557

INDEX . . . . . 565

# LIFE AND WRITINGS

OF

# MR RICARDO.

Mr Ricardo was placed, in early life, under circumstances apparently the least favourable for the formation of those habits of patient and comprehensive investigation, which afterwards raised him to a high rank among political philosophers.

He was the third of a numerous family, and was born on the 19th of April 1772. His father, a native of Holland, and of the Jewish persuasion, settled in this country early in life. He is said to have been a man of good talents and of the strictest integrity; and having become a member of the Stock Exchange, he acquired a respectable fortune, and possessed considerable influence in his circle. David, the subject of the present memoir, was destined for the same line of business as his father; and received, partly in England, and partly at a school in Holland, where he resided two years, such an education as is usually given to young men intended for the mercantile profession. Classical learning formed no part of his early instruction; and it has been questioned, with how much justice we shall not undertake to decide, whether its acquisition would have done him service; and whether it might not probably have made him seek for relaxation in the study of elegant literature

rather than in the severer exercises of the understanding; and prompted him to adopt opinions sanctioned by authority, without inquiring very anxiously into the grounds on which they rested.

Mr Ricardo began to be confidentially employed by his father in the business of the Stock Exchange, when he was only fourteen years of age. Neither then, however, nor at any subsequent period, was he wholly engrossed by the details of his profession. From his earliest years he evinced a taste for abstract reasoning; and manifested that determination to probe every subject of interest to the bottom, and to form his opinion upon it according to the conviction of his mind, which was a distinguishing feature of his character.

Mr Ricardo, senior, had been accustomed to subscribe, without investigation, to the opinions of his ancestors, on all questions connected with religion and politics; and he was desirous that his children should do the same. But this system of passive obedience, and of blind submission to the dictates of authority, was quite repugnant to the principles of young Ricardo, who, at the same time that he never failed to testify the sincerest affection and respect for his father, found reason to differ from him on many important points, and even to secede from the Hebrew faith.

Not long after this event, and shortly after he had attained the age of majority, Mr Ricardo formed an union, productive of unalloyed domestic happiness, with Miss Wilkinson Having been separated from his father, he was now thrown on his own resources; and commenced business for himself At this important epoch of his history, the oldest and most respectable members of the Stock Exchange gave a striking proof of the esteem entertained by them for his talents and character, by voluntarily coming forward to support him in his undertakings. His success exceeded the most sanguine expectations of his friends, and in a few years he realised an ample fortune.

"The talent for obtaining wealth," says one of Mr Ricardo's near relations, from whose account of his life we have borrowed these particulars, "is not held in much estimation; but perhaps in nothing did Mr R. more evince his extraordinary powers, than he did in his business. His complete knowledge of all its intricacies; his surprising quickness at figures and calculation; his capability of getting through, without any apparent exertion, the immense transactions in which he was concerned; his coolness and judgment, combined certainly with (for him) a fortunate tissue of public events, enabled him to leave all his contemporaries at the Stock Exchange far behind, and to raise himself infinitely higher, not only in fortune, but in general character and estimation, than any man had ever done before in that house. Such was the impression which these qualities had made on his competitors, that several of the most discerning among them, long before he had emerged into public notoriety, prognosticated in their admiration, that he would live to fill some of the highest stations in the state."*

According as his solicitude about his success in life declined, Mr Ricardo devoted a greater portion of his time to scientific and literary pursuits. When about twenty-five years of age, he began the study of some branches of mathematical science, and made considerable progress in chemistry and mineralogy. He fitted up a laboratory, formed a collection of minerals, and was one of the original members of the Geological Society. But he never entered warmly into the study of these sciences. They were not adapted to the peculiar cast of his mind; and he abandoned them entirely, as soon as his attention was directed to the more congenial study of Political Economy.

Mr Ricardo is stated to have first become acquainted with the *Wealth of Nations* in 1799, while on a visit at Bath, to which he had accompanied Mrs Ricardo for the benefit

* See an Account of the Life of Mr Ricardo in the *Annual Obituary* for 1823, supposed to be written by one of his brothers.

of her health. He was highly gratified by its perusal; and it is most probable that the inquiries about which it is conversant, continued henceforth to engage a considerable share of his attention, though it was not till a later period that his spare time was almost exclusively occupied with their study.

Mr Ricardo came, for the first time, before the public as an author in 1809. The rise in the market price of bullion, and the fall of the exchange that had taken place in the course of that year, had excited a good deal of attention. Mr Ricardo applied himself to the consideration of the subject; and the studies in which he had latterly been engaged, combined with the experience he had derived from his moneyed transactions, enabled him not only to perceive the true causes of the phenomena in question, but to trace and exhibit their practical bearing and real effect. He began this investigation without intending to lay the result of his researches before the public. But having shown his manuscript to the late Mr Perry, the proprietor and editor of the *Morning Chronicle*, the latter prevailed upon him, though not without considerable difficulty, to consent to its publication, in the shape of letters, in that journal. The first of these letters appeared on the 6th of September 1809. They made a considerable impression, and elicited various answers. This success, and the increasing interest of the subject, induced Mr Ricardo to commit his opinions upon it to the judgment of the public, in a more enlarged and systematic form, in the tract entitled "*The High Price of Bullion a Proof of the Depreciation of Bank Notes.*" This tract led the way in the far-famed bullion controversy. It issued from the press several months previously to the appointment of the Bullion Committee; and is believed to have had no inconsiderable effect in forwarding that important measure. In this tract Mr Ricardo showed that redundancy and deficiency of currency are only *relative* terms; and that so long as the currency of any particular country consists exclusively

of gold and silver coins, or of paper immediately convertible into such coins, its value can neither rise above nor fall below the value of the metallic currencies of other countries, by a greater sum than will suffice to defray the expense of importing foreign coin or bullion, if the currency be deficient; or of exporting a portion of the existing supply, if it be redundant. But when a country issues inconvertible paper notes, (as was then the case in England), they cannot be exported to other countries in the event of their becoming redundant at home; and whenever, under such circumstances, the exchange with foreign states is depressed below, or the price of bullion rises above, its mint price, more than the cost of sending coin or bullion abroad, it shows conclusively that too much paper has been issued, and that its value is *depreciated from excess*. The principles which pervade the Report of the Bullion Committee, are substantially the same with those established by Mr Ricardo in this pamphlet, but the more comprehensive and popular manner in which they are illustrated in the Report, and the circumstance of their being recommended by a Committee composed of some of the ablest men in the country, gave them a weight and authority which they could not otherwise have obtained. And though the prejudices and ignorance of some, and the interested, and therefore determined, opposition of others, prevented for a while the adoption of the measures proposed by Mr Ricardo and the Committee for restoring the currency to a sound and healthy state, they were afterwards carried into full effect; and afford one of the most memorable examples in our history, of the triumph of principle over selfishness, sophistry, and error.

The *fourth* edition of this tract is the most valuable. An Appendix added to it has some acute observations on some difficult questions in the theory of exchange; and it also contains the first germ of the original idea of making bank notes exchangeable for bars of gold bullion.

Among those who entered the lists in opposition to the principles laid down, and the practical measures suggested

in Mr Ricardo's tract, and in the Report of the Bullion Committee, a prominent place is due to Mr Bosanquet. This gentleman had great experience as a merchant; and as he professed that the statements and conclusions embodied in his "*Practical Observations*," which are completely at variance with those in the Report, were the result of a careful examination of the theoretical opinions of the Committee by the test of fact and experiment, they were well fitted to make, and did make, a very considerable impression. The triumph of Mr Bosanquet was, however, of very short duration. Mr Ricardo did not hesitate to attack this formidable adversary in his stronghold. His tract, entitled, "*Reply to Mr Bosanquet's Practical Observations on the Report of the Bullion Committee*," was published in 1811, and is one of the best essays that has appeared on any disputed question of Political Economy. In this pamphlet, Mr Ricardo met Mr Bosanquet on his own ground, and overthrew him with his own weapons. He examined all the proofs which Mr Bosanquet had brought forward, of the pretended discrepancy between the facts stated in his own tract, which he said were consistent with experience, and the theory laid down in the Bullion Report; and showed that Mr B. had either mistaken the cases by which he proposed to test the theory, or that the discrepancy was only apparent, and was entirely a consequence of his inability to apply the theory, and not of any thing erroneous or deficient in it. The victory of Mr Ricardo was perfect and complete; and the elaborate errors and mis-statements of Mr Bosanquet served only, to use the words of Dr Coppleston, "to illustrate the abilities of the writer who stepped forward to vindicate the truth."*

This tract affords a striking example of the ascendency which those who possess a knowledge both of principle and practice, have over those who are familiar only with the latter; and though the interest of the question which led to

* First Letter to the Right Hon. Robert Peel, by one of his Constituents, p. 61.

its publication has now subsided, it will always be read with delight by such as are not insensible of the high gratification which all ingenuous minds must feel in observing the ease with which a superior intellect clears away the irrelevant matter with which a question has been designedly embarrassed, reduces false facts to their just value, and traces and exhibits the constant operation of the same general principle through all the mazy intricacies of practical detail.

The merit of these pamphlets was duly appreciated; and Mr Ricardo's society was, in consequence, courted by men of the first eminence, who were not less pleased with his modesty, and unassuming manners, than with the vigour of his understanding. He formed, about this time, that intimacy with Mr Malthus, and Mr Mill, the historian of British India, which ended only with his death. To the latter he was particularly attached, and readily acknowledged how much he owed to his friendship.

Mr Ricardo next appeared as an author in 1815, during the discussions on the bill, afterwards passed into a law, for raising the limit at which foreign corn might be imported for consumption, to 80s. Mr Malthus, and a "Fellow of University College, Oxford," (afterwards Sir Edward West), had, by a curious coincidence, in tracts published almost consentaneously, elucidated the true theory of rent, which, though discovered by Dr Anderson as early as 1777, appears to have been entirely forgotten. But neither of these gentlemen perceived the bearing of the theory on the question in regard to the restriction of the importation of foreign corn. This was reserved for Mr Ricardo, who, in his "*Essay on the Influence of a Low Price of Corn on the Profits of Stock*," showed the effect of an increase in the price of raw produce on wages and profits; and founded a strong argument in favour of the freedom of the corn trade, on the very grounds on which Mr Malthus had endeavoured to show the propriety of subjecting it to fresh restrictions.

In 1816, Mr Ricardo published his "*Proposals for an*

*Economical and Secure Currency, with Observations on the Profits of the Bank of England.*" In this pamphlet he examined the circumstances which determine the value of money, when every individual has the power to supply it, and when that power is restricted or placed under a monopoly; and he showed that, in the former case, its value will depend, like that of all other freely supplied articles, on its cost; while in the latter, it will be unaffected by that circumstance, and will depend on the extent to which it may be issued compared with the demand. This is a principle of great importance; for, it shows that intrinsic worth is not necessary to a currency, and that, provided the supply of paper notes, declared to be legal tender, be sufficiently limited, their value may be maintained on a par with the value of gold, or raised to any higher level. If, therefore, it were practicable to devise a plan for preserving the value of paper on a level with that of gold, without making it convertible into coin at the pleasure of the holder, the heavy expense of a metallic currency would be saved. To effect this desirable object, Mr Ricardo proposed that, instead of being made exchangeable for gold coins, bank notes should be made exchangeable for *bars of gold bullion of the standard weight and purity.* This plan, than which nothing can be more simple, was obviously fitted to check the over-issue of paper quite as effectually as it is checked by making it convertible into coin; while, as bars could not be used as currency, it prevented any gold from getting into circulation, and consequently saved the expenses of coinage, and the wear and tear, and loss of coins. Mr Ricardo's proposal was recommended by the Committees of the Houses of Lords and Commons appointed, in 1819, to consider the expediency of the Bank of England resuming cash payments; and was afterwards adopted in the bill for their resumption introduced by Mr (now Sir Robert) Peel. In practice it was found completely to answer the object of checking over-issue. But inasmuch as it required that the place of sovereigns should be filled with one pound

notes, the forgery of the latter began to be extensively carried on; and it was wisely judged better to incur the expense of recurring to and keeping up a mixed currency, than to continue a plan which, though productive of a large saving, held out an all but irresistible temptation to crime.

At length, in 1817, Mr Ricardo published his great work on the "PRINCIPLES OF POLITICAL ECONOMY AND TAXATION." This was a step which he did not take without much hesitation. He was not, and did not affect to be, insensible of the value of literary and philosophical reputation; but his modesty always led him to undervalue his own powers; and having acquired a very high degree of celebrity as a writer on currency, he was unwilling to risk what he already possessed, by attempting to gain more. Ultimately, however, he was prevailed upon, by the entreaties of his friends, to allow his work to be sent to press. Its appearance forms a memorable æra in the history of political science. Exclusive of many valuable subsidiary inquiries, Mr Ricardo has pointed out, in this work, the source and limiting principle of exchangeable value, and has traced the laws which determine the distribution of wealth among the various ranks and orders of society. The powers of mind displayed in these investigations, the dexterity with which the most abstruse questions are unravelled, the sagacity displayed in tracing the operation of general principles, in disentangling them from such as are of a secondary and accidental nature, and in perceiving and estimating their remote consequences, have never been surpassed; and will for ever secure the name of Ricardo a conspicuous place among those who have done most to unfold the mechanism of society, and to discover the circumstances on which the well-being of its various orders must always mainly depend.

Mr Ricardo maintains, in this work, the fundamental principle, that the exchangeable value of commodities or their relative worth, as compared with each other, de-

pends exclusively on *the quantities of labour* necessarily required to produce them, and bring them to market. Smith had shown that this principle determined the value of commodities in the earlier stages of society, before land had been appropriated and capital accumulated; but he supposed that, after land had become property and rent began to be paid, and after capital had been amassed and workmen began to be hired by capitalists, the value of commodities fluctuated not only according to variations in the labour required to produce and bring them to market, but also according to variations of rents and wages. But Mr Ricardo has shown that this theory is erroneous, and that the value of commodities is determined in all states of society by the same principle, or by the quantity of labour required for their production. He showed that variations of profits or wages, by affecting different commodities to the same, or nearly the same, extent, would either have no influence over their exchangeable value, or if they had any, it would depend upon the degree in which they occasionally affect some products more than others. And Dr Anderson and others having already shown that rent is not an element of cost or value, it follows that the cost or value of all freely produced commodities, the supply of which may be indefinitely increased (abstracting from temporary variations of supply and demand), depends wholly on the quantity of labour required for their production, and not upon the rate at which that labour may be paid; so that, supposing the labour required to produce any number of commodities to remain constant, their cost and value will also remain constant, whether wages fall from 3s. to 1s., or rise from 3s. to 5s. or 7s. a-day. This is the fundamental theorem of the science of value, and the clue which unravels the intricate labyrinth of the laws which regulate the distribution of wealth. Its discovery has shed a flood of light on what was previously shrouded in all but impenetrable mystery, and the apparently knotty and hitherto insoluble questions regarding the action of wages and profits on each other and

on prices, have since ceased to present any insuperable difficulties. What the researches of Locke and Smith did for the production of wealth, those of Ricardo have done for its value and distribution.

The establishment of general principles being Mr Ricardo's great object, he has paid comparatively little attention to their practical application, and sometimes, indeed, he has in great measure overlooked the circumstances by which they are occasionally countervailed. In illustration of this we may mention, that society being laid under the necessity of constantly resorting to inferior soils to obtain additional supplies of food, Mr Ricardo lays it down that, in the progress of society, raw produce and wages have a constant tendency to rise and profits to fall. And this, no doubt, is in the abstract true. But it must at the same time be observed, that while on the one hand society is obliged constantly to resort to inferior soils, agriculture is on the other hand susceptible of indefinite improvement; and this improvement necessarily in so far countervails the decreasing fertility of the soil; and may, and in fact very frequently does, more than countervail it. Mr Ricardo has also very generally overlooked the influence of increased prices in diminishing consumption and stimulating industry, so that his conclusions, though true according to his assumptions, do not always harmonise with what really takes place. But his is not a practical work; and it did not enter into his plan to exhibit the circumstances that give rise to the discrepancies in question. The "*Principles of Political Economy and Taxation*" is not even a systematic treatise, but is principally an inquiry respecting certain fundamental principles, most of which had previously been undiscovered. And though it be often exceedingly difficult, or, it may be, all but impossible, to estimate the extent to which these principles may in certain cases be modified by other principles and combinations of circumstances, it is obviously of the greatest importance to have ascertained their existence. They are so many land-marks to which to refer

and can never be lost sight of even in matters most essentially practical.

That part of Mr Ricardo's work, in which he applies his principles to discover the incidence of taxes on rent, profit, wages, and raw produce, is more practical than the others; and must always be a subject of careful study to those who wish to make themselves well acquainted with this department of political science.

Mr Ricardo had now become an extensive landed proprietor, and had wholly retired from business, with a fortune acquired with the universal respect and esteem of his competitors. But he did not retire from the bustle of active life, to the mere enjoyment of his acres—*Non fuit consilium socordia atque desidia bonum otium conterere*—he had other objects in view; and while his leisure hours, when in the country, were chiefly devoted to inquiries connected with that science, of which he was now confessedly at the head. he determined to extend the sphere of his usefulness, by entering the House of Commons. In 1819 he took his seat as member for Portarlington. His diffidence in his own powers had, however, nearly deprived the public of the services which he rendered in this situation. In a letter to one of his friends, dated the 7th of April 1819, he says: "You will have seen that I have taken my seat in the House of Commons. I fear that I shall be of little use there. I have twice attempted to speak; but I proceeded in the most embarrassed manner; and I have no hope of conquering the alarm with which I am assailed the moment I hear the sound of my own voice." And in a letter to the same gentleman, dated the 22d of June 1819, he says: "I thank you for your endeavours to inspire me with confidence on the occasion of my addressing the House. Their indulgent reception of me has, in some degree, made the task of speaking more easy to me; but there are yet so many formidable obstacles to my success, and some, I fear, of a nature nearly insurmountable, that I apprehend it will be wisdom and sound discretion in me to content myself with giving silent

votes." Fortunately he did not adopt this resolution. The difficulties with which he had at first to struggle, and his diffidence in himself, gradually subsided; while the mildness of his manners, the mastery which he possessed over the subjects on which he spoke, and the purity of his intentions, speedily secured him a very extensive influence both in the House and the country, and gave great weight to his opinions.

Mr Ricardo was not one of those who make speeches to suit the ephemeral circumstances and politics of the day: he spoke only from principle, and with a fixed resolution never to diverge in any degree from the path which it pointed out; he neither concealed nor modified an opinion for the purpose of conciliating the favour, or of disarming the prejudices or hostility, of any man or set of men; nor did he ever make a speech or give a vote which he was not well convinced was founded on just principles, and calculated to promote the lasting interests of the public. Trained to habits of profound thinking, independent in his fortune, and inflexible in his principles, Mr Ricardo had little in common with mere party politicians. The public good was the grand object of his parliamentary exertions; and he laboured to promote it, not by engaging in party combinations, but by supporting the rights and liberties of all classes, and by unfolding the true sources of national wealth and general prosperity.

The change that has taken place in the public opinion respecting the financial and commercial policy of the country, since the period when Mr Ricardo obtained a seat in the House of Commons, is as complete as it is gratifying. Not only are the most enlarged principles advocated by all the leading members of both Houses; not only are they now ready to admit that the exclusive system is founded on vicious principles, and that it is sound policy to admit the freest competition in every branch of industry, and to deal with all the world on fair and liberal principles; but they are about to make these doctrines a part of the law of the land,

and to give them the sanction of parliamentary authority. Sir Robert Peel has the signal merit of having, despite the most formidable obstacles, carried out and established in their fullest extent the great principles of commercial freedom developed by Smith and his followers. And we believe that that distinguished statesman would readily admit that the writings and speeches of Mr Ricardo have powerfully contributed to pave the way for this most desirable consummation. As he was known to be a master in "the master-science of civil life," his opinion, from the moment he entered the House of Commons, was referred to on all important occasions;* and he acquired additional influence and consideration, according as experience served to render the House and the country better acquainted with his talents, and his singleness of purpose.

In 1820, Mr Ricardo contributed an article on the "*Funding System*," to the Supplement to the "Encyclopædia Britannica." This tract, though somewhat confused in its arrangement, embraces many valuable discussions. He was a decided friend to the plan for raising the supplies for a war within the year, by an equivalent increase of taxation; and he also thought (in which opinion few probably will be disposed to concur), that it would be not only expedient but practicable to pay off the public debt by an assessment on capital.

In 1822, Mr Ricardo published, during the parliamentary discussions on the subject of the corn laws, his tract on "*Protection to Agriculture*." This is the best of all his pamphlets, and is, indeed, a *chef-d'œuvre*. The important questions respecting remunerating price, the influence of a low and high value of corn over wages and profits, the influence of taxation over agriculture and manufactures, and many other topics of equal difficulty and interest, are all discussed in

* Mr Ricardo made the first of his prominent appearances on the 24th of May 1819, in the debate on the resolutions proposed by Mr (now Sir Robert) Peel respecting the resumption of cash payments. He did not rise until he was loudly called upon from all sides of the House.

the short compass of eighty or ninety pages, with a precision and clearness that leaves nothing to be desired. Had Mr Ricardo never written any thing else, this pamphlet would have placed him in the first rank of political economists.

Though not robust, Mr Ricardo's constitution was apparently good, and his health such as to promise a long life of usefulness. He had, indeed, been subject, for several years, to an affection in one of his ears; but as it had not given him any serious inconvenience, he paid it but little attention When he retired to his seat in Gloucestershire (Gatcomb Park), subsequently to the close of the session of 1823, he was in excellent health and spirits; and, besides completing a tract, containing a plan for the establishment of a *National Bank*, he engaged, with his usual ardour, in elaborate inquiries regarding some of the more abstruse economical doctrines. But he was not destined to bring these inquiries to a close! Early in September he was suddenly seized with a violent pain in the diseased ear: the symptoms were not, however, considered unfavourable; and the breaking of an imposthume that had been formed within the ear contributed greatly to his relief. But the amendment was only transitory; within two days, inflammation recommenced; and after a period of the greatest agony, pressure on the brain ensued, which produced a stupor that continued until death terminated his sufferings, on the 11th September, in his 52d year.

In private life, Mr Ricardo was most amiable. He was an indulgent father and husband; and an affectionate, and zealous friend. No man was ever more thoroughly free from every species of artifice and pretension; more sincere, plain, and unassuming. He was particularly fond of assembling intelligent men around him, and of conversing in the most unrestrained manner on all topics of interest, but more especially on those connected with his favourite science. On these as on all occasions, he readily gave way to others, and never discovered the least impatience to speak; but when

he did speak, the solidity of his judgment, his candour, and his extraordinary talent for resolving a question into its elements, and for setting the most difficult and complicated subjects in the most striking point of view, arrested the attention of every one, and delighted all who heard him. He never entered into an argument, whether in public or private, for the sake of displaying ingenuity, of baffling an opponent, or of gaining a victory. The discovery of truth was his exclusive object. He was ever open to conviction; and if he were satisfied he had either advanced or supported an erroneous opinion, he was the first to acknowledge his error, and to caution others against it.

Few men have possessed in a higher degree than Mr Ricardo, the talent of speaking and conversing with clearness and facility on the abstrusest topics. In this respect, his speeches were greatly superior to his publications. The latter cannot be readily understood and followed without considerable attention; but nothing could exceed the ease and felicity with which he illustrated and explained the most difficult questions of Political Economy, both in private conversation and in his speeches. Without being forcible, his style of speaking was easy, fluent, and agreeable. It was impossible to take him off his guard. To those who were not familiar with his speculations, some of his positions were apt to appear paradoxical; but the paradox was only in appearance. He rarely advanced an opinion on which he had not deeply reflected, and without examining it in every point of view; and the readiness with which he overthrew the most specious objections that the ablest men in the House could make to his doctrines, is the best proof of their correctness, and of the superiority of his understanding. That there were greater orators, and men of more varied and general acquirements in Parliament than Mr Ricardo, we readily allow; but we are bold to say, that in point of deep, clear, and comprehensive intellect, he had no superiors, and very few, if any, equals, either in Parliament or in the country.

He was not less generous than intelligent; he was never slow to come forward to the relief of the poor and the distressed; and while he contributed to almost every charitable institution in the metropolis, he supported, at his own expense, an alms-house for the poor, and two schools for the instruction of the young in the vicinity of his seat in the country.

Besides the publications previously enumerated, Mr Ricardo left one or two manuscripts. Among others, a "*Plan for the Establishment of a National Bank*" was found in a finished state, and was soon after published.

He also left "*Notes*" on Mr Malthus's Principles of Political Economy; containing a vindication of his own doctrines from the objections of Mr Malthus, and showing the mistakes into which he conceives Mr M. had fallen. But we doubt whether they have sufficient interest to warrant their publication.

Though not properly belonging to the Whig party, Mr Ricardo voted almost uniformly with the Opposition. He was impressed with the conviction, that many advantages would result from giving the people a greater influence over the choice of their representatives in the House of Commons than they then possessed; and he was so far a friend to the system of the radical reformers, as to give his cordial support to the plan of voting by ballot; which he considered as the best means for securing the mass of the electors against improper solicitations, and for enabling them to vote in favour of the candidates whom they really approved. He did not, however, agree with the radical reformers in their plan of universal suffrage; he thought the elective franchise should be given to all who possessed a certain amount of property; but he was of opinion, that while it would be a very hazardous experiment, no practical good would result from giving the franchise indiscriminately to all. His opinions on these subjects are fully stated in the *Essay on Parliamentary Reform*, and in the *Speech on the Ballot*, in this edition of his works.

Of the value of the services rendered by Mr Ricardo to Political Economy, there can be, among intelligent men, only one opinion. His works have made a very great addition to the mass of useful and universally interesting truths, and afford some of the finest examples to be met with of discriminating analysis, and of profound and refined discussion. The brevity with which he has stated some of his most important propositions; their intimate dependence on each other; the fewness of his illustrations; and the mathematical cast he has given to his reasoning, render it sometimes a little difficult for readers, unaccustomed to such investigations, readily to follow him. But we can venture to affirm, that those who will give to his works the attention of which they are so worthy, will find them to be as logical and conclusive as they are profound and important. It was the opinion of Quintilian, that the students of eloquence who were highly delighted with Cicero, had made no inconsiderable progress in their art: and the same may, without hesitation, be said of the students of Political Economy who find pleasure in the works of Mr Ricardo: *Ille se profecisse sciat, cui Ricardo valde placebit.*

When the circumstances under which Mr Ricardo spent the greater part of his life are brought under view; and when it is also recollected that he died at the early age of *fifty-one*, it may be truly said that very few have ever achieved so much. His industry was as remarkable as his sagacity and his candour.

"The history of Mr Ricardo," to use the words of Mr Mill, "holds out a bright and inspiring example. Mr Ricardo had every thing to do for himself; and he did every thing. Let not the generous youth, whose aspirations are higher than his circumstances, despair of attaining either the highest intellectual excellence, or the highest influence in the welfare of his species, when he recollects in what circumstances Mr Ricardo opened, and in what he closed, his memorable life. He had his fortune to make; his mind

to form; he had even his education to commence and conduct. In a field of the most intense competition, he realized a large fortune, with the universal esteem and affection of those who could best judge of the honour and purity of his acts. Amid this scene of active exertion and practical detail, he cultivated and he acquired habits of intense, and patient, and comprehensive thinking; such as have been rarely equalled, and never excelled."

Mr Ricardo left a widow, three sons, and four daughters.

# PRINCIPLES OF POLITICAL ECONOMY

AND

# TAXATION.

THIRD EDITION.

LONDON.

1821

# ADVERTISEMENT TO THE THIRD EDITION.

In this Edition I have endeavoured to explain more fully than in the last, my opinion on the difficult subject of VALUE, and for that purpose have made a few additions to the first chapter. I have also inserted a new chapter on the subject of MACHINERY, and on the effects of its improvement on the interests of the different classes of the State. In the chapter on the DISTINCTIVE PROPERTIES of VALUE and RICHES, I have examined the doctrines of M. Say on that important question, as amended in the fourth and last edition of his work. I have in the last chapter endeavoured to place in a stronger point of view than before the doctrine of the ability of a country to pay additional money taxes, although the aggregate money value of the mass of its commodities should fall, in consequence either of the diminished quantity of labour required to produce its corn at home, by improvements in its husbandry, or from its obtaining a part of its corn at a cheaper price from abroad, by means of the exportation of its manufactured commodities. This consideration is of great importance, as it regards the question of the policy of leaving unrestricted the importation of foreign corn, particularly in a country burthened with a heavy fixed money taxation, the consequence of an immense National Debt. I have endeavoured to show that the ability to pay taxes depends, not on the gross money value of the mass of commodities, nor on the net money value of the revenues of capitalists and landlords, but on the money value of each man's revenue, compared to the money value of the commodities which he usually consumes.

March 26, 1821.

# PREFACE.

THE produce of the earth—all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community, namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution, is the principal problem in Political Economy: much as the science has been improved by the writings of Turgot, Stuart, Smith, Say, Sismondi, and others, they afford very little satisfactory information respecting the natural course of rent, profit, and wages.

In 1815, Mr Malthus, in his "Inquiry into the Nature and Progress of Rent," and a Fellow of University College, Oxford, in his "Essay on the Application of Capital to Land," presented to the world, nearly at the same moment, the true doctrine of rent; without a knowledge of which, it is impossible to understand the effect of the progress of wealth on profits and wages, or to trace satisfactorily the influence of taxation on different classes of the community; particularly when the commodities taxed are the productions immediately derived from the surface of the earth. Adam Smith, and the other able writers to whom I have alluded, not having viewed correctly the principles of rent, have, it appears

to me, overlooked many important truths, which can only be discovered after the subject of rent is thoroughly understood.

To supply this deficiency, abilities are required of a far superior cast to any possessed by the writer of the following pages; yet, after having given to this subject his best consideration—after the aid which he has derived from the works of the above-mentioned eminent writers—and after the valuable experience which a few late years, abounding in facts, have yielded to the present generation—it will not, he trusts, be deemed presumptuous in him to state his opinions on the laws of profits and wages, and on the operation of taxes. If the principles which he deems correct, should be found to be so, it will be for others, more able than himself, to trace them to all their important consequences.

The writer, in combating received opinions, has found it necessary to advert more particularly to those passages in the writings of Adam Smith from which he sees reason to differ; but he hopes it will not, on that account, be suspected that he does not, in common with all those who acknowledge the importance of the science of Political Economy, participate in the admiration which the profound work of this celebrated author so justly excites.

The same remark may be applied to the excellent works of M. Say, who not only was the first, or among the first, of continental writers, who justly appreciated and applied the principles of Smith, and who has done more than all other continental writers taken together, to recommend the principles of that enlightened and beneficial system to the nations of Europe; but who has succeeded in placing the science in a more logical and more instructive order; and has enriched it by several discussions, original, accurate, and profound.* The respect, however, which the author entertains for the writings of this gentleman, has not prevented him from commenting with that freedom which he thinks the interests of science require, on such passages of the "Economie Politique" as appeared at variance with his own ideas.

* Chap. xv. Part i., "Des Débouchés," contains, in particular, some very important principles, which I believe were first explained by this distinguished writer

# PRINCIPLES OF POLITICAL ECONOMY.

## CHAPTER I.—ON VALUE.

### SECTION I.

**The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour.**

It has been observed by Adam Smith, that "the word Value has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called *value in use*; the other *value in exchange*. The things," he continues, "which have the greatest value in use, have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange, have little or no value in use." Water and air are abundantly useful; they are indeed indispensable to existence, yet, under ordinary circumstances, nothing can be obtained in exchange for them. Gold, on the contrary, though of little use compared with air or water, will exchange for a great quantity of other goods.

Utility then is not the measure of exchangeable value, although it is absolutely essential to it. If a commodity were in no way useful,—in other words, if it could in no way contribute to our gratification,—it would be destitute of exchangeable value, however scarce it might be, or whatever quantity of labour might be necessary to procure it.

Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them.

There are some commodities, the value of which is determined by their scarcity alone. No labour can increase the quantity of such goods, and therefore their value cannot be lowered by an in-

creased supply. Some rare statues and pictures, scarce books and coins, wines of a peculiar quality, which can be made only from grapes grown on a particular soil, of which there is a very limited quantity, are all of this description. Their value is wholly independent of the quantity of labour originally necessary to produce them, and varies with the varying wealth and inclinations of those who are desirous to possess them.

These commodities, however, form a very small part of the mass of commodities daily exchanged in the market. By far the greatest part of those goods which are the objects of desire, are procured by labour; and they may be multiplied, not in one country alone, but in many, almost without any assignable limit, if we are disposed to bestow the labour necessary to obtain them.

In speaking, then, of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.

In the early stages of society, the exchangeable value of these commodities, or the rule which determines how much of one shall be given in exchange for another, depends almost exclusively on the comparative quantity of labour expended on each.

"The real price of every thing," says Adam Smith, "what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people." "Labour was the first price—the original purchase-money that was paid for all things." Again, "in that early and rude state of society, which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If, among a nation of hunters, for example, it usually cost twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for, or be worth two deer. It is natural that what is usually the produce of two days', or two hours' labour, should be worth double of what is usually the produce of one day's, or one hour's labour."*

That this is really the foundation of the exchangeable value of all things, excepting those which cannot be increased by human industry, is a doctrine of the utmost importance in political economy; for from no source do so many errors, and so much difference of opinion in that science proceed, as from the vague ideas which are attached to the word value.

* Book i. chap. 5.

If the quantity of labour realized in commodities regulate their exchangeable value, every increase of the quantity of labour must augment the value of that commodity on which it is exercised, as every diminution must lower it.

Adam Smith, who so accurately defined the original source of exchangeable value, and who was bound in consistency to maintain, that all things became more or less valuable in proportion as more or less labour was bestowed on their production, has himself erected another standard measure of value, and speaks of things being more or less valuable, in proportion as they will exchange for more or less of this standard measure. Sometimes he speaks of corn, at other times of labour, as a standard measure; not the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market: as if these were two equivalent expressions, and as if, because a man's labour had become doubly efficient, and he could therefore produce twice the quantity of a commodity, he would necessarily receive twice the former quantity in exchange for it.

If this indeed were true, if the reward of the labourer were always in proportion to what he produced, the quantity of labour bestowed on a commodity, and the quantity of labour which that commodity would purchase, would be equal, and either might accurately measure the variations of other things; but they are not equal; the first is under many circumstances an invariable standard, indicating correctly the variations of other things; the latter is subject to as many fluctuations as the commodities compared with it. Adam Smith, after most ably showing the insufficiency of a variable medium, such as gold and silver, for the purpose of determining the varying value of other things, has himself, by fixing on corn or labour, chosen a medium no less variable.

Gold and silver are no doubt subject to fluctuations, from the discovery of new and more abundant mines; but such discoveries are rare, and their effects, though powerful, are limited to periods of comparatively short duration. They are subject also to fluctuation, from improvements in the skill and machinery with which the mines may be worked; as in consequence of such improvements, a greater quantity may be obtained with the same labour. They are further subject to fluctuation from the decreasing produce of the mines, after they have yielded a supply to the world, for a succession of ages. But from which of these sources of fluctuation is corn exempted? Does not that also vary, on one hand, from improvements in agriculture, from improved machinery and implements used in husbandry, as well as from the discovery of new tracts of fertile land, which in other countries may be taken into cultivation, and which will affect the value of corn in every market where importation is free? Is it not on the other hand subject to be enhanced in value from prohibitions of importation, from increasing population and wealth, and the greater difficulty of obtaining the

increased supplies, on account of the additional quantity of labour which the cultivation of inferior lands requires? Is not the value of labour equally variable; being not only affected, as all other things are, by the proportion between the supply and demand, which uniformly varies with every change in the condition of the community, but also by the varying price of food and other necessaries, on which the wages of labour are expended?

In the same country double the quantity of labour may be required to produce a given quantity of food and necessaries at one time, that may be necessary at another, and a distant time; yet the labourer's reward may possibly be very little diminished. If the labourer's wages at the former period were a certain quantity of food and necessaries, he probably could not have subsisted if that quantity had been reduced. Food and necessaries in this case will have risen 100 per cent. if estimated by the *quantity* of labour necessary to their production, while they will scarcely have increased in value, if measured by the quantity of labour for which they will *exchange*.

The same remark may be made respecting two or more countries. In America and Poland, on the land last taken into cultivation, a year's labour of any given number of men, will produce much more corn than on land similarly circumstanced in England. Now, supposing all other necessaries to be equally cheap in those three countries, would it not be a great mistake to conclude, that the quantity of corn awarded to the labourer, would in each country be in proportion to the facility of production?

If the shoes and clothing of the labourer could, by improvements in machinery, be produced by one-fourth of the labour now necessary to their production, they would probably fall 75 per cent.; but so far is it from being true, that the labourer would thereby be enabled permanently to consume four coats, or four pair of shoes, instead of one, that it is probable his wages would in no long time be adjusted by the effects of competition, and the stimulus to population, to the new value of the necessaries on which they were expended. If these improvements extended to all the objects of the labourer's consumption, we should find him probably, at the end of a very few years, in possession of only a small, if any, addition to his enjoyments, although the exchangeable value of those commodities, compared with any other commodity, in the manufacture of which no such improvement were made, had sustained a very considerable reduction; and though they were the produce of a very considerably diminished quantity of labour.

It cannot then be correct, to say with Adam Smith, "that as labour may sometimes *purchase* a greater, and sometimes a smaller quantity of goods, it is their value which varies, not that of the labour which purchases them;" and therefore, "that labour *alone never varying in its own value*, is alone the ultimate and real standard by which the value of all commodities can at all times and places

be estimated and compared;"—but it is correct to say, as Adam Smith had previously said, "that the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another;" or in other words, that it is the comparative quantity of commodities which labour will produce, that determines their present or past relative value, and not the comparative quantities of commodities, which are given to the labourer in exchange for his labour.

Two commodities vary in relative value, and we wish to know in which the variation has really taken place. If we compare the present value of one, with shoes, stockings, hats, iron, sugar, and all other commodities, we find that it will exchange for precisely the same quantity of all these things as before. If we compare the other with the same commodities, we find it has varied with respect to them all: we may then with great probability infer that the variation has been in this commodity, and not in the commodities with which we have compared it. If on examining still more particularly into all the circumstances connected with the production of these various commodities, we find that precisely the same quantity of labour and capital are necessary to the production of the shoes, stockings, hats, iron, sugar, &c.; but that the same quantity as before is not necessary to produce the single commodity whose relative value is altered, probability is changed into certainty, and we are sure that the variation is in the single commodity: we then discover also the cause of its variation.

If I found that an ounce of gold would exchange for a less quantity of all the commodities above enumerated, and many others; and if, moreover, I found that by the discovery of a new and more fertile mine, or by the employment of machinery to great advantage, a given quantity of gold could be obtained with a less quantity of labour, I should be justified in saying that the cause of the alteration in the value of gold relatively to other commodities, was the greater facility of its production, or the smaller quantity of labour necessary to obtain it. In like manner, if labour fell very considerably in value, relatively to all other things, and if I found that its fall was in consequence of an abundant supply, encouraged by the great facility with which corn, and the other necessaries of the labourer, were produced, it would, I apprehend, be correct for me to say that corn and necessaries had fallen in value in consequence of less quantity of labour being necessary to produce them, and that this facility of providing for the support of the labourer had been followed by a fall in the value of labour. No, say Adam Smith and Mr Malthus, in the case of the gold you were correct in calling its variation a fall of its value, because corn and labour had not then varied; and as gold would command a less quantity of them, as well as of all other things, than before, it was correct to say that all things had remained stationary, and that gold only had

varied; but when corn and labour fall, things which we have selected to be our standard measure of value, notwithstanding all the variations to which we acknowledge they are subject, it would be highly improper to say so; the correct language will be to say, that corn and labour have remained stationary, and all other things have risen in value.

Now it is against this language that I protest. I find that precisely, as in the case of the gold, the cause of the variation between corn and other things, is the smaller quantity of labour necessary to produce it, and therefore, by all just reasoning, I am bound to call the variation of corn and labour a fall in their value, and not a rise in the value of the things with which they are compared. If I have to hire a labourer for a week, and instead of ten shillings I pay him eight, no variation having taken place in the value of money, the labourer can probably obtain more food and necessaries, with his eight shillings, than he before obtained for ten: but this is owing, not to a rise in the real value of his wages, as stated by Adam Smith, and more recently by Mr Malthus, but to a fall in the value of the things on which his wages are expended, things perfectly distinct; and yet for calling this a fall in the real value of wages, I am told that I adopt new and unusual language, not reconcileable with the true principles of the science. To me it appears that the unusual and, indeed, inconsistent language, is that used by my opponents.

Suppose a labourer to be paid a bushel of corn for a week's work, when the price of corn is 80s. per quarter, and that he is paid a bushel and a quarter when the price falls to 40s. Suppose, too, that he consumes half a bushel of corn a-week in his own family, and exchanges the remainder for other things, such as fuel, soap, candles, tea, sugar, salt, &c. &c.; if the three-fourths of a bushel which will remain to him, in one case, cannot procure him as much of the above commodities as half a bushel did in the other, which it will not, will labour have risen or fallen in value? Risen, Adam Smith must say, because his standard is corn, and the labourer receives more corn for a week's labour. Fallen, must the same Adam Smith say, "because the value of a thing depends on the power of purchasing other goods which the possession of that object conveys," and labour has a less power of purchasing such other goods.

---

## SECTION II.

### Labour of different qualities differently rewarded. This no cause of variation in the relative value of commodities.

In speaking, however, of labour, as being the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities, I must not be supposed to be

inattentive to the different qualities of labour, and the difficulty of comparing an hour's or a day's labour, in one employment, with the same duration of labour in another. The estimation in which different qualities of labour are held, comes soon to be adjusted in the market with sufficient precision for all practical purposes, and depends much on the comparative skill of the labourer, and intensity of the labour performed. The scale, when once formed, is liable to little variation. If a day's labour of a working jeweller be more valuable than a day's labour of a common labourer, it has long ago been adjusted, and placed in its proper position in the scale of value.*

In comparing, therefore, the value of the same commodity, at different periods of time, the consideration of the comparative skill and intensity of labour, required for that particular commodity, needs scarcely to be attended to, as it operates equally at both periods. One description of labour at one time is compared with the same description of labour at another; if a tenth, a fifth, or a fourth, has been added or taken away, an effect proportioned to the cause will be produced on the relative value of the commodity.

If a piece of cloth be now of the value of two pieces of linen, and if, in ten years hence, the ordinary value of a piece of cloth should be four pieces of linen, we may safely conclude, that either more labour is required to make the cloth, or less to make the linen, or that both causes have operated.

As the inquiry to which I wish to draw the reader's attention, relates to the effect of the variations in the relative value of commodities, and not in their absolute value, it will be of little importance to examine into the comparative degree of estimation in which the different kinds of human labour are held. We may fairly conclude, that whatever inequality there might originally have been in them, whatever the ingenuity, skill, or time necessary for the acquirement of one species of manual dexterity more than another, it continues nearly the same from one generation to another; or at least, that the variation is very inconsiderable from year to year, and therefore, can have little effect, for short periods, on the relative value of commodities.

"The proportion between the different rates both of wages and

* "But though labour be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labour. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labour in an hour's hard work, than in two hours' easy business; or, in an hour's application to a trade, which it costs ten years' labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure, either of hardship or ingenuity. In exchanging, indeed, the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality, which, though not exact, is sufficient for carrying on the business of common life."—*Wealth of Nations*, book i. chap. 10.

profit in the different employments of labour and stock, seems not to be much affected, as has already been observed, by the riches or poverty, the advancing, stationary, or declining state of the society. Such revolutions in the public welfare, though they affect the general rates both of wages and profit, must in the end affect them equally in all different employments. The proportion between them therefore must remain the same, and cannot well be altered, at least for any considerable time, by any such revolutions."*

## SECTION III.

Not only the labour applied immediately to commodities affect their value, but the labour also which is bestowed on the implements, tools, and buildings, with which such labour is assisted.

Even in that early state to which Adam Smith refers, some capital, though possibly made and accumulated by the hunter himself, would be necessary to enable him to kill his game. Without some weapon, neither the beaver nor the deer could be destroyed, and therefore the value of these animals would be regulated, not solely by the time and labour necessary to their destruction, but also by the time and labour necessary for providing the hunter's capital, the weapon, by the aid of which their destruction was effected.

Suppose the weapon necessary to kill the beaver, was constructed with much more labour than that necessary to kill the deer, on account of the greater difficulty of approaching near to the former animal, and the consequent necessity of its being more true to its mark; one beaver would naturally be of more value than two deer, and precisely for this reason, that more labour would, on the whole, be necessary to its destruction. Or suppose that the same quantity of labour was necessary to make both weapons, but that they were of very unequal durability; of the durable implement only a small portion of its value would be transferred to the commodity, a much greater portion of the value of the less durable implement would be realized in the commodity which it contributed to produce.

All the implements necessary to kill the beaver and deer might belong to one class of men, and the labour employed in their destruction might be furnished by another class; still, their comparative prices would be in proportion to the actual labour bestowed, both on the formation of the capital, and on the destruction of the animals. Under different circumstances of plenty or scarcity of capital, as compared with labour, under different circumstances of plenty or scarcity of the food and necessaries essential to the support of men, those who furnished an equal value of capital for either one employment or for the other, might have a half, a fourth, or

* Wealth of Nations, book i. chap. 10.

an eighth of the produce obtained, the remainder being paid as wages to those who furnished the labour; yet this division could not affect the relative value of these commodities, since whether the profits of capital were greater or less, whether they were 50, 20, or 10 per cent., or whether the wages of labour were high or low, they would operate equally on both employments.

If we suppose the occupations of the society extended, that some provide canoes and tackle necessary for fishing, others the seed and rude machinery first used in agriculture, still the same principle would hold true, that the exchangeable value of the commodities produced would be in proportion to the labour bestowed on their production; not on their immediate production only, but on all those implements or machines required to give effect to the particular labour to which they were applied.

If we look to a state of society in which greater improvements have been made, and in which arts and commerce flourish, we shall still find that commodities vary in value conformably with this principle: in estimating the exchangeable value of stockings, for example, we shall find that their value, comparatively with other things, depends on the total quantity of labour necessary to manufacture them, and bring them to market. First, there is the labour necessary to cultivate the land on which the raw cotton is grown: secondly, the labour of conveying the cotton to the country where the stockings are to be manufactured, which includes a portion of the labour bestowed in building the ship in which it is conveyed, and which is charged in the freight of the goods; thirdly, the labour of the spinner and weaver; fourthly, a portion of the labour of the engineer, smith, and carpenter, who erected the buildings and machinery, by the help of which they are made; fifthly, the labour of the retail dealer, and of many others, whom it is unnecessary further to particularize. The aggregate sum of these various kinds of labour, determines the quantity of other things for which these stockings will exchange, while the same consideration of the various quantities of labour which have been bestowed on those other things, will equally govern the portion of them which will be given for the stockings.

To convince ourselves that this is the real foundation of exchangeable value, let us suppose any improvement to be made in the means of abridging labour in any one of the various processes through which the raw cotton must pass, before the manufactured stockings come to the market, to be exchanged for other things; and observe the effects which will follow. If fewer men were required to cultivate the raw cotton, or if fewer sailors were employed in navigating, or shipwrights in constructing the ship, in which it was conveyed to us; if fewer hands were employed in raising the buildings and machinery, or if these, when raised, were rendered more efficient, the stockings would inevitably fall in value, and consequently command less of other things. They would fall,

because a less quantity of labour was necessary to their production, and would therefore exchange for a smaller quantity of those things in which no such abridgment of labour had been made.

Economy in the use of labour never fails to reduce the relative value of a commodity, whether the saving be in the labour necessary to the manufacture of the commodity itself, or in that necessary to the formation of the capital, by the aid of which it is produced. In either case the price of stockings would fall, whether there were fewer men employed as bleachers, spinners, and weavers, persons immediately necessary to their manufacture; or as sailors, carriers, engineers, and smiths, persons more indirectly concerned. In the one case, the whole saving of labour would fall on the stockings, because that portion of labour was wholly confined to the stockings; in the other, a portion only would fall on the stockings, the remainder being applied to all those other commodities, to the production of which the buildings, machinery, and carriage were subservient

Suppose that, in the early stages of society, the bows and arrows of the hunter were of equal value, and of equal durability, with the canoe and implements of the fisherman, both being the produce of the same quantity of labour. Under such circumstances the value of the deer, the produce of the hunter's day's labour, would be exactly equal to the value of the fish, the produce of the fisherman's day's labour. The comparative value of the fish and the game would be entirely regulated by the quantity of labour realized in each; whatever might be the quantity of production, or however high or low general wages or profits might be. If, for example, the canoes and implements of the fisherman were of the value of 100*l.*, and were calculated to last for ten years, and he employed ten men, whose annual labour cost 100*l.*, and who in one day obtained by their labour twenty salmon: If the weapons employed by the hunter were also of 100*l.* value, and calculated to last ten years, and if he also employed ten men, whose annual labour cost 100*l.*, and who in one day procured him ten deer; then the natural price of a deer would be two salmon, whether the proportion of the whole produce bestowed on the men who obtained it were large or small. The proportion which might be paid for wages is of the utmost importance in the question of profits; for it must at once be seen, that profits would be high or low, exactly in proportion as wages were low or high; but it could not in the least affect the relative value of fish and game, as wages would be high or low at the same time in both occupations. If the hunter urged the plea of his paying a large proportion, or the value of a large proportion of his game for wages, as an inducement to the fisherman to give him more fish in exchange for his game, the latter would state that he was equally affected by the same cause; and therefore, under all variations of wages and profits, under all the effects of accumulation of capital, as long as they continued by a day's labour to

obtain respectively the same quantity of fish, and the same quantity of game, the natural rate of exchange would be one deer for two salmon.

If with the same quantity of labour a less quantity of fish, or a greater quantity of game were obtained, the value of fish would rise in comparison with that of game. If, on the contrary, with the same quantity of labour a less quantity of game, or a greater quantity of fish was obtained, game would rise in comparison with fish.

If there were any other commodity which was invariable in its value, we should be able to ascertain, by comparing the value of fish and game with this commodity, how much of the variation was to be attributed to a cause which affected the value of fish, and how much to a cause which affected the value of game.

Suppose money to be that commodity. If a salmon were worth 1*l.* and a deer 2*l.*, one deer would be worth two salmon. But a deer might become of the value of three salmon, for more labour might be required to obtain the deer, or less to get the salmon, or both these causes might operate at the same time. If we had this invariable standard, we might easily ascertain in what degree either of these causes operated. If salmon continued to sell for 1*l.* whilst deer rose to 3*l.*, we might conclude that more labour was required to obtain the deer. If deer continued at the same price of 2*l.* and salmon sold for 13s. 4d., we might then be sure that less labour was required to obtain the salmon; and if deer rose to 2*l.* 10s. and salmon fell to 16s. 8d., we should be convinced that both causes had operated in producing the alteration of the relative value of these commodities.

No alteration in the wages of labour could produce any alteration in the relative value of these commodities; for suppose them to rise, no greater quantity of labour would be required in any of these occupations, but it would be paid for at a higher price, and the same reasons which should make the hunter and fisherman endeavour to raise the value of their game and fish, would cause the owner of the mine to raise the value of his gold. This inducement acting with the same force on all these three occupations, and the relative situation of those engaged in them being the same before and after the rise of wages, the relative value of game, fish, and gold would continue unaltered. Wages might rise twenty per cent., and profits consequently fall in a greater or less proportion, without occasioning the least alteration in the relative value of these commodities.

Now suppose that, with the same labour and fixed capital, more fish could be produced, but no more gold or game, the relative value of fish would fall in comparison with gold or game. If, instead of twenty salmon, twenty-five were the produce of one day's labour, the price of a salmon would be sixteen shillings instead of a pound, and two salmon and a half, instead of two salmon, would be given in exchange for one deer, but the price of deer would continue at

2*l.* as before. In the same manner, if fewer fish could be obtained with the same capital and labour, fish would rise in comparative value. Fish then would rise or fall in exchangeable value, only because more or less labour was required to obtain a given quantity; and it never could rise or fall beyond the proportion of the increased or diminished quantity of labour required.

If we had then an invariable standard, by which we could measure the variation in other commodities, we should find that the utmost limit to which they could permanently rise, if produced under the circumstances supposed, was proportioned to the additional quantity of labour required for their production; and that unless more labour were required for their production, they could not rise in any degree whatever. A rise of wages would not raise them in money value, nor relatively to any other commodities, the production of which required no additional quantity of labour, which employed the same proportion of fixed and circulating capital, and fixed capital of the same durability. If more or less labour were required in the production of the other commodity, we have already stated that this will immediately occasion an alteration in its relative value, but such alteration is owing to the altered quantity of requisite labour, and not to the rise of wages.

## SECTION IV.

The principle that the quantity of labour bestowed on the production of commodities regulates their relative value, considerably modified by the employment of machinery and other fixed and durable capital.

In the former section we have supposed the implements and weapons necessary to kill the deer and salmon to be equally durable, and to be the result of the same quantity of labour, and we have seen that the variations in the relative value of deer and salmon depended solely on the varying quantities of labour necessary to obtain them, but in every state of society, the tools, implements, buildings, and machinery employed in different trades may be of various degrees of durability, and may require different portions of labour to produce them. The proportions, too, in which the capital that is to support labour, and the capital that is invested in tools, machinery, and buildings, may be variously combined. This difference in the degree of durability of fixed capital, and this variety in the proportions in which the two sorts of capital may be combined, introduce another cause, besides the greater or less quantity of labour necessary to produce commodities, for the variations in their relative value—this cause is the rise or fall in the value of labour.

The food and clothing consumed by the labourer, the buildings in which he works, the implements with which his labour is assisted, are all of a perishable nature There is, however, a vast difference

in the time for which these different capitals will endure: a steam-engine will last longer than a ship, a ship than the clothing of the labourer, and the clothing of the labourer longer than the food which he consumes.

According as capital is rapidly perishable, and requires to be frequently reproduced, or is of slow consumption, it is classed under the heads of circulating, or of fixed capital.* A brewer, whose buildings and machinery are valuable and durable, is said to employ a large portion of fixed capital: on the contrary, a shoemaker, whose capital is chiefly employed in the payment of wages, which are expended on food and clothing, commodities more perishable than buildings and machinery, is said to employ a large proportion of his capital as circulating capital.

It is also to be observed that the circulating capital may circulate, or be returned to its employer, in very unequal times. The wheat bought by a farmer to sow is comparatively a fixed capital to the wheat purchased by a baker to make into loaves. One leaves it in the ground, and can obtain no return for a year; the other can get it ground into flour, sell it as bread to his customers, and have his capital free to renew the same, or commence any other employment in a week.

Two trades then may employ the same amount of capital; but it may be very differently divided with respect to the portion which is fixed, and that which is circulating.

In one trade very little capital may be employed as circulating capital, that is to say, in the support of labour—it may be principally invested in machinery, implements, buildings, &c., capital of a comparatively fixed and durable character. In another trade the same amount of capital may be used, but it may be chiefly employed in the support of labour, and very little may be invested in implements, machines, and buildings. A rise in the wages of labour cannot fail to affect unequally commodities produced under such different circumstances.

Again, two manufacturers may employ the same amount of fixed, and the same amount of circulating capital; but the durability of their fixed capitals may be very unequal. One may have steam-engines of the value of 10,000*l.*, the other, ships of the same value.

If men employed no machinery in production but labour only, and were all the same length of time before they brought their commodities to market, the exchangeable value of their goods would be precisely in proportion to the quantity of labour employed.

If they employed fixed capital of the same value and of the same durability, then, too, the value of the commodities produced would be the same, and they would vary with the greater or less quantity of labour employed on their production.

But although commodities produced under similar circumstances

* A division not essential, and in which the line of demarcation cannot be accurately drawn.

would not vary with respect to each other, from any cause but an addition or diminution of the quantity of labour necessary to produce one or other of them, yet, compared with others not produced with the same proportionate quantity of fixed capital, they would vary from the other cause also which I have before mentioned, namely, a rise in the value of labour, although neither more nor less labour were employed in the production of either of them. Barley and oats would continue to bear the same relation to each other under any variation of wages. (Cotton goods and cloth would do the same, if they also were produced under circumstances precisely similar to each other, but yet with a rise or fall of wages, barley might be more or less valuable compared with cotton goods, and oats compared with cloth.)

Suppose two men employ one hundred men each for a year in the construction of two machines, and another man employs the same number of men in cultivating corn, each of the machines at the end of the year will be of the same value as the corn, for they will each be produced by the same quantity of labour. Suppose one of the owners of one of the machines to employ it, with the assistance of one hundred men, the following year in making cloth, and the owner of the other machine to employ his also, with the assistance likewise of one hundred men, in making cotton goods, while the farmer continues to employ one hundred men as before in the cultivation of corn. During the second year they will all have employed the same quantity of labour, but the goods and machine together of the clothier, and also of the cotton manufacturer, will be the result of the labour of two hundred men, employed for a year; or, rather, of the labour of one hundred men for two years; whereas the corn will be produced by the labour of one hundred men for one year, consequently if the corn be of the value of 500*l.*, the machine and cloth of the clothier together ought to be of the value of 1000*l.*, and the machine and cotton goods of the cotton manufacturer ought to be also of twice the value of the corn. But they will be of more than twice the value of the corn, for the profit on the clothier's and cotton manufacturer's capital for the first year has been added to their capitals, while that of the farmer has been expended and enjoyed. On account then of the different degrees of durability of their capitals, or, which is the same thing, on account of the time which must elapse before one set of commodities can be brought to market, they will be valuable, not exactly in proportion to the quantity of labour bestowed on them,—they will not be as two to one, but something more, to compensate for the greater length of time which must elapse before the most valuable can be brought to market.

Suppose that for the labour of each workman 50*l.* per annum were paid, or that 5000*l.* capital were employed and profits were 10 per cent., the value of each of the machines as well as of the corn, at the end of the first year, would be 5,500*l.* The second

year the manufacturers and farmer will again employ 5000*l.* each in the support of labour, and will therefore again sell their goods for 5,500*l.*; but the men using the machines, to be on a par with the farmer, must not only obtain 5,500*l.* for the equal capitals of 5000*l.* employed on labour, but they must obtain a further sum of 550*l.* for the profit on 5,500*l.*, which they have invested in machinery, and consequently their goods must sell for 6,050*l.* Here, then, are capitalists employing precisely the same quantity of labour annually on the production of their commodities, and yet the goods they produce differ in value on account of the different quantities of fixed capital, or accumulated labour, employed by each respectively. The cloth and cotton goods are of the same value, because they are the produce of equal quantities of labour, and equal quantities of fixed capital; but corn is not of the same value as these commodities, because it is produced, as far as regards fixed capital, under different circumstances.

But how will their relative value be affected by a rise in the value of labour? It is evident that the relative values of cloth and cotton goods will undergo no change, for what affects one must equally affect the other, under the circumstances supposed; neither will the relative values of wheat and barley undergo any change, for they are produced under the same circumstances as far as fixed and circulating capital are concerned; but the relative value of corn to cloth, or to cotton goods, must be altered by a rise of labour.

There can be no rise in the value of labour without a fall of profits. If the corn is to be divided between the farmer and the labourer, the larger the proportion that is given to the latter, the less will remain for the former. So, if cloth or cotton goods be divided between the workman and his employer, the larger the proportion given to the former, the less remains for the latter. Suppose then, that owing to a rise of wages, profits fall from 10 to 9 per cent., instead of adding 550*l.* to the common price of their goods (to 5,500*l.*) for the profits on their fixed capital, the manufacturers would add only 9 per cent. on that sum, or 495*l.*, consequently the price would be 5,995*l.*, instead of 6,050*l.* As the corn would continue to sell for 5,500*l.*, the manufactured goods in which more fixed capital was employed, would fall relatively to corn or to any other goods in which a less portion of fixed capital entered. The degree of alteration in the relative value of goods, on account of a rise or fall of labour, would depend on the proportion which the fixed capital bore to the whole capital employed. All commodities which are produced by very valuable machinery, or in very valuable buildings, or which require a great length of time before they can be brought to market, would fall in relative value, while all those which were chiefly produced by labour, or which would be speedily brought to market, would rise in relative value.

The reader, however, should remark, that this cause of the variation of commodities is comparatively slight in its effects.

With such a rise of wages as should occasion a fall of 1 per cent. in profits, goods produced under the circumstances I have supposed, vary in relative value only 1 per cent.; they fall with so great a fall of profits from 6,050*l.* to 5,995*l.* The greatest effects which could be produced on the relative prices of these goods from a rise of wages, could not exceed 6 or 7 per cent; for profits could not, probably, under any circumstances, admit of a greater general and permanent depression than to that amount.

Not so with the other great cause of the variation in the value of commodities, namely, the increase or diminution in the quantity of labour necessary to produce them. If to produce the corn, eighty, instead of one hundred men, should be required, the value of the corn would fall 20 per cent., or from 5,500*l.* to 4,400*l.* If to produce the cloth, the labour of eighty instead of one hundred men would suffice, cloth would fall from 6,050*l.* to 4,950*l.* An alteration in the permanent rate of profits, to any great amount, is the effect of causes which do not operate but in the course of years, whereas alterations in the quantity of labour necessary to produce commodities are of daily occurrence. Every improvement in machinery, in tools, in buildings, in raising the raw material, saves labour, and enables us to produce the commodity to which the improvement is applied with more facility, and consequently its value alters. In estimating, then, the causes of the variations in the value of commodities, although it would be wrong wholly to omit the consideration of the effect produced by a rise or fall of labour, it would be equally incorrect to attach much importance to it; and consequently, in the subsequent part of this work, though I shall occasionally refer to this cause of variation, I shall consider all the great variations which take place in the relative value of commodities to be produced by the greater or less quantity of labour which may be required from time to time to produce them.

It is hardly necessary to say, that commodities which have the same quantity of labour bestowed on their production, will differ in exchangeable value, if they cannot be brought to market in the same time.

Suppose I employ twenty men at an expense of 1000*l.* for a year in the production of a commodity, and at the end of the year I employ twenty men again for another year, at a further expense of 1000*l.* in finishing or perfecting the same commodity, and that I bring it to market at the end of two years, if profits be 10 per cent., my commodity must sell for 2,310*l.*; for I have employed 1000*l.* capital for one year, and 2,100*l.* capital for one year more. Another man employs precisely the same quantity of labour, but he employs it all in the first year; he employs forty men at an expense of 2000*l.*, and at the end of the first year he sells it with 10 per cent. profit, or for 2200*l.* Here, then, are two commodities having precisely the same quantity of labour bestowed on them, one of which sells for 2,310*l.*—the other for 2,200*l.*

This case appears to differ from the last, but is, in fact, the same. In both cases the superior price of one commodity is owing to the greater length of time which must elapse before it can be brought to market. In the former case the machinery and cloth were more than double the value of the corn, although only double the quantity of labour was bestowed on them. In the second case, one commodity is more valuable than the other, although no more labour was employed on its production. The difference in value arises in both cases from the profits being accumulated as capital, and is only a just compensation for the time that the profits were withheld.

It appears, then, that the division of capital into different proportions of fixed and circulating capital, employed in different trades, introduces a considerable modification to the rule, which is of universal application when labour is almost exclusively employed in production; namely, that commodities never vary in value, unless a greater or less quantity of labour be bestowed on their production, it being shown in this section that, without any variation in the quantity of labour, the rise of its value merely will occasion a fall in the exchangeable value of those goods in the production of which fixed capital is employed; the larger the amount of fixed capital, the greater will be the fall.

---

## SECTION V.

The principle that value does not vary with the rise or fall of wages, modified also by the unequal durability of capital, and by the unequal rapidity with which it is returned to its employer.

In the last section we have supposed that, of two equal capitals, in two different occupations, the proportions of fixed and circulating capitals were unequal; now let us suppose them to be in the same proportion, but of unequal durability. In proportion as fixed capital is less durable, it approaches to the nature of circulating capital. It will be consumed and its value reproduced in a shorter time, in order to preserve the capital of the manufacturer. We have just seen, that in proportion as fixed capital preponderates in a manufacture, when wages rise, the value of commodities produced in that manufacture, is relatively lower than that of commodities produced in manufactures where circulating capital preponderates. In proportion to the less durability of fixed capital, and its approach to the nature of circulating capital, the same effect will be produced by the same cause.

If fixed capital be not of a durable nature, it will require a great quantity of labour annually to keep it in its original state of efficiency; but the labour so bestowed may be considered as really expended on the commodity manufactured, which must bear a value

in proportion to such labour. If I had a machine worth 20,000*l.* which with very little labour was efficient to the production of commodities, and if the wear and tear of such machine were of trifling amount, and the general rate of profit 10 per cent., I should not require much more than 2000*l.* to be added to the price of the goods, on account of the employment of my machine; but if the wear and tear of the machine were great, if the quantity of labour requisite to keep it in an efficient state were that of fifty men annually, I should require an additional price for my goods, equal to that which would be obtained by any other manufacturer who employed fifty men in the production of other goods, and who used no machinery at all.

But a rise in the wages of labour would not equally affect commodities produced with machinery quickly consumed, and commodities produced with machinery slowly consumed. In the production of the one, a great deal of labour would be continually transferred to the commodity produced—in the other very little would be so transferred. Every rise of wages, therefore, or, which is the same thing, every fall of profits, would lower the relative value of those commodities which were produced with a capital of a durable nature, and would proportionally elevate those which were produced with capital more perishable. A fall of wages would have precisely the contrary effect.

I have already said that fixed capital is of various degrees of durability—suppose now a machine which could in any particular trade be employed to do the work of one hundred men for a year, and that it would last only for one year. Suppose, too, the machine to cost 5000*l.*, and the wages annually paid to one hundred men to be 5000*l.*, it is evident that it would be a matter of indifference to the manufacturer whether he bought the machine or employed the men. But suppose labour to rise, and consequently the wages of one hundred men for a year to amount to 5,500*l.*, it is obvious that the manufacturer would now no longer hesitate, it would be for his interest to buy the machine and get his work done for 5000*l.* But will not the machine rise in price, will not that also be worth 5,500*l.* in consequence of the rise of labour? It would rise in price if there were no stock employed on its construction, and no profits to be paid to the maker of it. If, for example, the machine were the produce of the labour of one hundred men, working one year upon it with wages of 50*l.* each, and its price were consequently 5000*l.*; should those wages rise to 55*l.*, its price would be 5,500*l.*, but this cannot be the case; less than one hundred men are employed or it could not be sold for 5000*l.*, for out of the 5000*l.* must be paid the profits of stock which employed the men. Suppose then that only eighty-five men were employed at an expense of 50*l.* each, or 4,250*l.* per annum, and that the 750*l.* which the sale of the machine would produce over and above the wages advanced to the men, constituted the profits of the engineer's stock. When wages rose 10 per cent.,

he would be obliged to employ an additional capital of 425*l.*, and would therefore employ 4,675*l.* instead of 4,250*l.*, on which capital he would only get a profit of 325*l.* if he continued to sell his machine for 5000*l.*; but this is precisely the case of all manufacturers and capitalists; the rise of wages affects them all. If therefore the maker of the machine should raise the price of it in consequence of a rise of wages, an unusual quantity of capital would be employed in the construction of such machines, till their price afforded only the common rate of profits.* We see then that machines would not rise in price, in consequence of a rise of wages.

The manufacturer, however, who in a general rise of wages can have recourse to a machine which shall not increase the charge of production on his commodity, would enjoy peculiar advantages if he could continue to charge the same price for his goods; but he, as we have already seen, would be obliged to lower the price of his commodities, or capital would flow to his trade till his profits had sunk to the general level. Thus then is the public benefited by machinery: these mute agents are always the produce of much less labour than that which they displace, even when they are of the same money value. Through their influence, an increase in the price of provisions which raises wages will affect fewer persons: it will reach, as in the above instance, eighty-five men instead of a hundred, and the saving which is the consequence shows itself in the reduced price of the commodity manufactured. Neither machines, nor the commodities made by them, rise in real value, but all commodities made by machines fall, and fall in proportion to their durability.

It will be seen then, that in the early stages of society, before much machinery or durable capital is used, the commodities produced by equal capitals will be nearly of equal value, and will rise or fall only relatively to each other on account of more or less labour being required for their production; but after the introduction of these expensive and durable instruments, the commodities produced by the employment of equal capitals will be of very unequal value, and although they will still be liable to rise or fall relatively to each other, as more or less labour becomes necessary to their production, they will be subject to another, though a minor variation, also from the rise or fall of wages and profits. Since goods which sell for 5000*l.* may be the produce of a capital equal in amount to that from which are produced other goods which sell for 10,000*l.*, the profits on their manufacture will be the same;

* We here see why it is that old countries are constantly impelled to employ machinery, and new countries to employ labour. With every difficulty of providing for the maintenance of men, labour necessarily rises, and with every rise in the price of labour, new temptations are offered to the use of machinery. This difficulty of providing for the maintenance of men is in constant operation in old countries, in new ones a very great increase in the population may take place without the least rise in the wages of labour. It may be as easy to provide for the 7th, 8th, and 9th million of men as for the 2d, 3d, and 4th.

but those profits would be unequal, if the prices of the goods did not vary with a rise or fall in the rate of profits.

It appears, too, that in proportion to the durability of capital employed in any kind of production, the relative prices of those commodities on which such durable capital is employed, will vary inversely as wages; they will fall as wages rise, and rise as wages fall; and, on the contrary, those which are produced chiefly by labour with less fixed capital, or with fixed capital of a less durable character than the medium in which price is estimated, will rise as wages rise, and fall as wages fall.

---

## SECTION VI.

### On an invariable measure of value.

When commodities varied in relative value, it would be desirable to have the means of ascertaining which of them fell and which rose in real value, and this could be effected only by comparing them one after another with some invariable standard measure of value, which should itself be subject to none of the fluctuations to which other commodities are exposed. Of such a measure it is impossible to be possessed, because there is no commodity which is not itself exposed to the same variations as the things the value of which is to be ascertained; that is, there is none which is not subject to require more or less labour for its production. But if this cause of variation in the value of a medium could be removed —if it were possible that in the production of our money, for instance, the same quantity of labour should at all times be required, still it would not be a perfect standard or invariable measure of value, because, as I have already endeavoured to explain, it would be subject to relative variations from a rise or fall of wages, on account of the different proportions of fixed capital which might be necessary to produce it, and to produce those other commodities whose alteration of value we wished to ascertain. It might be subject to variations, too, from the same cause, on account of the different degrees of durability of the fixed capital employed on it, and the commodities to be compared with it—or the time necessary to bring the one to market, might be longer or shorter than the time necessary to bring the other commodities to market, the variations of which were to be determined; all which circumstances disqualify any commodity that can be thought of from being a perfectly accurate measure of value.

If, for example, we were to fix on gold as a standard, it is evident that it is but a commodity obtained under the same contingencies as every other commodity, and requiring labour and fixed capital to produce it. Like every other commodity, improvements

in the saving of labour might be applied to its production, and consequently it might fall in relative value to other things merely on account of the greater facility of producing it.

If we suppose this cause of variation to be removed, and the same quantity of labour to be always required to obtain the same quantity of gold, still gold would not be a perfect measure of value, by which we could accurately ascertain the variations in all other things, because it would not be produced with precisely the same combinations of fixed and circulating capital as all other things; nor with fixed capital of the same durability; nor would it require precisely the same length of time, before it could be brought to market. It would be a perfect measure of value for all things produced under the same circumstances precisely as itself, but for no others. If, for example, it were produced under the same circumstances as we have supposed necessary to produce cloth and cotton goods, it would be a perfect measure of value for those things, but not so for corn, for coals, and other commodities produced with either a less or a greater proportion of fixed capital, because, as we have shown, every alteration in the permanent rate of profits would have some effect on the relative value of all these goods, independently of any alteration in the quantity of labour employed on their production. If gold were produced under the same circumstances as corn, even if they never changed, it would not, for the same reasons, be at all times a perfect measure of the value of cloth and cotton goods. Neither gold, then, nor any other commodity, can ever be a perfect measure of value for all things; but I have already remarked, that the effect on the relative prices of things, from a variation in profits, is comparatively slight; that by far the most important effects are produced by the varying quantities of labour required for production; and therefore, if we suppose this important cause of variation removed from the production of gold, we shall probably possess as near an approximation to a standard measure of value as can be theoretically conceived. May not gold be considered as a commodity produced with such proportions of the two kinds of capital as approach nearest to the average quantity employed in the production of most commodities? May not these proportions be so nearly equally distant from the two extremes, the one where little fixed capital is used, the other where little labour is employed, as to form a just mean between them?

If, then, I may suppose myself to be possessed of a standard so nearly approaching to an invariable one, the advantage is, that I shall be enabled to speak of the variations of other things, without embarrassing myself on every occasion with the consideration of the possible alteration in the value of the medium in which price and value are estimated.

To facilitate, then, the object of this enquiry, although I fully allow that money made of gold is subject to most of the variations of other things, I shall suppose it to be invariable, and therefore all

alterations in price to be occasioned by some alteration in the value of the commodity of which I may be speaking.

Before I quit this subject, it may be proper to observe, that Adam Smith, and all the writers who have followed him, have, without one exception that I know of, maintained that a rise in the price of labour would be uniformly followed by a rise in the price of all commodities. I hope I have succeeded in showing, that there are no grounds for such an opinion, and that only those commodities would rise which had less fixed capital employed upon them than the medium in which price was estimated, and that all those which had more, would positively fall in price when wages rose. On the contrary, if wages fell, those commodities only would fall, which had a less proportion of fixed capital employed on them, than the medium in which price was estimated; all those which had more, would positively rise in price.

It is necessary for me also to remark, that I have not said, because one commodity has so much labour bestowed upon it as will cost 1000*l.*, and another so much as will cost 2000*l.*, that therefore one would be of the value of 1000*l.*, and the other of the value of 2000*l.*; but I have said that their value will be to each other as two to one, and that in those proportions they will be exchanged. It is of no importance to the truth of this doctrine, whether one of these commodities sells for 1,100*l.* and the other for 2,200*l.*, or one for 1,500*l.* and the other for 3000*l.*; into that question I do not at present enquire; I affirm only, that their relative values will be governed by the relative quantities of labour bestowed on their production.*

## SECTION VII.

Different effects from the alteration in the value of money, the medium in which PRICE is always expressed, or from the alteration in the value of the commodities which money purchases.

ALTHOUGH I shall, as I have already explained, have occasion to consider money as invariable in value, for the purpose of more distinctly pointing out the causes of relative variations in the value of other things, it may be useful to notice the different effects which will follow from the prices of goods being altered by the causes to which I have already adverted, namely, the different quantities of

* Mr Malthus remarks on this doctrine, "We have the power indeed, arbitrarily, to call the labour which has been employed upon a commodity its real value, but in so doing, we use words in a different sense from that in which they are customarily used; we confound at once the very important distinction between *cost* and *value*; and render it almost impossible to explain with clearness the main stimulus to the production of wealth, which in fact depends upon this distinction."

Mr Malthus appears to think that it is a part of my doctrine, that the cost and value of a thing should be the same; it is, if he means by cost, "cost of production" including profits. In the above passage, this is what he does not mean, and therefore he has not clearly understood me.

labour required to produce them, and their being altered by a variation in the value of money itself.

Money being a variable commodity, the rise of money-wages will be frequently occasioned by a fall in the value of money. A rise of wages from this cause will, indeed, be invariably accompanied by a rise in the price of commodities; but in such cases, it will be found that labour and all commodities have not varied in regard to each other, and that the variation has been confined to money.

Money, from its being a commodity obtained from a foreign country, from its being the general medium of exchange between all civilized countries, and from its being also distributed among those countries in proportions which are ever changing with every improvement in commerce and machinery, and with every increasing difficulty of obtaining food and necessaries for an increasing population, is subject to incessant variations. In stating the principles which regulate exchangeable value and price, we should carefully distinguish between those variations which belong to the commodity itself, and those which are occasioned by a variation in the medium in which value is estimated, or price expressed.

A rise in wages, from an alteration in the value of money, produces a general effect on price, and for that reason it produces no real effect whatever on profits. On the contrary, a rise of wages, from the circumstance of the labourer being more liberally rewarded, or from a difficulty of procuring the necessaries on which wages are expended, does not, except in some instances, produce the effect of raising price, but has a great effect in lowering profits. In the one case, no greater proportion of the annual labour of the country is devoted to the support of the labourers; in the other case, a larger portion is so devoted.

It is according to the division of the whole produce of the land of any particular farm, between the three classes, of landlord, capitalist, and labourer, that we are to judge of the rise or fall of rent, profit, and wages, and not according to the value at which that produce may be estimated in a medium which is confessedly variable.

It is not by the absolute quantity of produce obtained by either class, that we can correctly judge of the rate of profit, rent, and wages, but by the quantity of labour required to obtain that produce. By improvements in machinery and agriculture, the whole produce may be doubled; but if wages, rent, and profit be also doubled, these three will bear the same proportions to one another as before, and neither could be said to have relatively varied. But if wages partook not of the whole of this increase; if they, instead of being doubled, were only increased one-half; if rent, instead of being doubled, were only increased three-fourths, and the remaining increase went to profit, it would, I apprehend, be correct for me to say, that rent and wages had fallen while profits had risen; for if we had an invariable standard by which to measure the value of this produce, we should find that a less value had fallen to the

class of labourers and landlords, and a greater to the class of capitalists, than had been given before. We might find, for example, that though the absolute quantity of commodities had been doubled, they were the produce of precisely the former quantity of labour. Of every hundred hats, coats, and quarters of corn produced, if

| | |
|---|---|
| The labourers had before . . | 25 |
| The landlords . . . . . | 25 |
| And the capitalists . . . . | 50 |
| | 100: |

And if, after these commodities were double the quantity, of every 100

| | |
|---|---|
| The labourers had only . . . | 22 |
| The landlords . . . . . | 22 |
| And the capitalists . . . . | 56 |
| | 100: |

In that case I should say, that wages and rent had fallen and profits risen; though, in consequence of the abundance of commodities, the quantity paid to the labourer and landlord would have increased in the proportion of 25 to 44. Wages are to be estimated by their real value, viz. by the quantity of labour and capital employed in producing them, and not by their nominal value either in coats, hats, money, or corn. Under the circumstances I have just supposed, commodities would have fallen to half their former value, and if money had not varied, to half their former price also. If then in this medium, which had not varied in value, the wages of the labourer should be found to have fallen, it will not the less be a real fall, because they might furnish him with a greater quantity of cheap commodities than his former wages.

The variation in the value of money, however great, makes no difference in the *rate* of profits; for suppose the goods of the manufacturer to rise from 1000*l.* to 2000*l.*, or 100 per cent., if his capital, on which the variations of money have as much effect as on the value of produce, if his machinery, buildings, and stock in trade rise also a 100 per cent., his rate of profits will be the same, and he will have the same quantity, and no more, of the produce of the labour of the country at his command.

If, with a capital of a given value, he can, by economy in labour, double the quantity of produce, and it fall to half its former price, it will bear the same proportion to the capital that produced it which it did before, and consequently profits will still be at the same rate.

If, at the same time that he doubles the quantity of produce by the employment of the same capital, the value of money is by any accident lowered one half, the produce will sell for twice the money value that it did before; but the capital employed to produce it

will also be of twice its former money value; and therefore in this case too, the value of the produce will bear the same proportion to the value of the capital as it did before; and although the produce be doubled, rent, wages, and profits will only vary as the proportions vary, in which this double produce may be divided among the three classes that share it.

## CHAPTER II.

### ON RENT.

It remains however to be considered, whether the appropriation of land, and the consequent creation of rent, will occasion any variation in the relative value of commodities, independently of the quantity of labour necessary to production. In order to understand this part of the subject, we must enquire into the nature of rent, and the laws by which its rise or fall is regulated.

Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to his landlord. If, of two adjoining farms of the same extent, and of the same natural fertility, one had all the conveniences of farming buildings, and, besides, were properly drained and manured, and advantageously divided by hedges, fences and walls, while the other had none of these advantages, more remuneration would naturally be paid for the use of one, than for the use of the other; yet in both cases this remuneration would be called rent. But it is evident, that a portion only of the money annually to be paid for the improved farm, would be given for the original and indestructible powers of the soil; the other portion would be paid for the use of the capital which had been employed in ameliorating the quality of the land, and in erecting such buildings as were necessary to secure and preserve the produce. Adam Smith sometimes speaks of rent, in the strict sense to which I am desirous of confining it, but more often in the popular sense, in which the term is usually employed. He tells us, that the demand for timber, and its consequent high price, in the more southern countries of Europe, caused a rent to be paid for forests in Norway, which could before afford no rent. Is it not, however, evident, that the person who paid what he thus calls rent, paid it in consideration of the valuable commodity which was then standing on the land, and that he actually repaid himself with a profit, by the sale of the timber? If, indeed, after the timber was removed, any compensation were paid to the landlord for the use of the land, for the purpose of growing timber or any other produce, with a view to future demand, such compensation might justly be

called rent, because it would be paid for the productive powers of the land; but in the case stated by Adam Smith, the compensation was paid for the liberty of removing and selling the timber, and not for the liberty of growing it. He speaks also of the rent of coal mines, and of stone quarries, to which the same observation applies —that the compensation given for the mine or quarry, is paid for the value of the coal or stone which can be removed from them, and has no connexion with the original and indestructible powers of the land. This is a distinction of great importance, in an enquiry concerning rent and profits; for it is found, that the laws which regulate the progress of rent, are widely different from those which regulate the progress of profits, and seldom operate in the same direction. In all improved countries, that which is annually paid to the landlord, partaking of both characters, rent and profit, is sometimes kept stationary by the effects of opposing causes; at other times advances or recedes, as one or the other of these causes preponderates. In the future pages of this work, then, whenever I speak of the rent of land, I wish to be understood as speaking of that compensation, which is paid to the owner of land for the use of its original and indestructible powers.

On the first settling of a country, in which there is an abundance of rich and fertile land, a very small proportion of which is required to be cultivated for the support of the actual population, or indeed can be cultivated with the capital which the population can command, there will be no rent; for no one would pay for the use of land, when there was an abundant quantity not yet appropriated, and, therefore, at the disposal of whosoever might choose to cultivate it.

On the common principles of supply and demand, no rent could be paid for such land, for the reason stated why nothing is given for the use of air and water, or for any other of the gifts of nature which exist in boundless quantity. With a given quantity of materials, and with the assistance of the pressure of the atmosphere, and the elasticity of steam, engines may perform work, and abridge human labour to a very great extent; but no charge is made for the use of these natural aids, because they are inexhaustible, and at every man's disposal. In the same manner, the brewer, the distiller, the dyer, make incessant use of the air and water for the production of their commodities; but as the supply is boundless, they bear no price.* If all land had the same properties, if it were

* "The earth, as we have already seen, is not the only agent of nature which has a productive power; but it is the only one, or nearly so, that one set of men take to themselves, to the exclusion of others; and of which, consequently, they can appropriate the benefits. The waters of rivers, and of the sea, by the power which they have of giving movement to our machines, carrying our boats, nourishing our fish, have also a productive power; the wind which turns our mills, and even the heat of the sun, work for us; but happily no one has yet been able to say, the 'wind and the sun are mine, and the service which they render must be paid for.'"—*Economie Politique, par J. B. Say*, vol. ii. p. 124.

unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because, in the progress of population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it. When, in the progress of society, land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of these two portions of land.

When land of the third quality is taken into cultivation, rent immediately commences on the second, and it is regulated as before, by the difference in their productive powers. At the same time, the rent of the first quality will rise, for that must always be above the rent of the second, by the difference between the produce which they yield with a given quantity of capital and labour. With every step in the progress of population, which shall oblige a country to have recourse to land of a worse quality, to enable it to raise its supply of food, rent, on all the more fertile land, will rise.

Thus suppose land—No. 1, 2, 3,—to yield, with an equal employment of capital and labour, a net produce of 100, 90, and 80 quarters of corn. In a new country, where there is an abundance of fertile land compared with the population, and where therefore it is only necessary to cultivate No. 1, the whole net produce will belong to the cultivator, and will be the profits of the stock which he advances. As soon as population had so far increased as to make it necessary to cultivate No. 2, from which ninety quarters only can be obtained after supporting the labourers, rent would commence on No. 1; for either there must be two rates of profit on agricultural capital, or ten quarters, or the value of ten quarters must be withdrawn from the produce of No. 1, for some other purpose. Whether the proprietor of the land, or any other person, cultivated No. 1, these ten quarters would equally constitute rent: for the cultivator of No. 2 would get the same result with his capital, whether he cultivated No. 1, paying ten quarters for rent, or continued to cultivate No. 2, paying no rent. In the same manner it might be shown that when No. 3 is brought into cultivation, the rent of No. 2 must be ten quarters, or the value of ten quarters, whilst the rent of No. 1 would rise to twenty quarters; for the cultivator of No. 3 would have the same profits whether he paid twenty quarters for the rent of No. 1, ten quarters for the rent of No. 2, or cultivated No. 3 free of all rent.

It often, and, indeed, commonly happens, that before No. 2, 3, 4, or 5, or the inferior lands are cultivated, capital can be employed more productively on those lands which are already in cultivation. It may perhaps be found, that by doubling the original capital employed on No. 1, though the produce will not be doubled, will not be increased by 100 quarters, it may be increased by eighty-five

quarters, and that this quantity exceeds what could be obtained by employing the same capital on land No. 3.

In such case, capital will be preferably employed on the old land, and will equally create a rent; for rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour. If, with a capital of 1000*l.* a tenant obtain 100 quarters of wheat from his land, and by the employment of a second capital of 1000*l.*, he obtain a further return of eighty-five, his landlord would have the power, at the expiration of his lease, of obliging him to pay fifteen quarters, or an equivalent value for additional rent; for there cannot be two rates of profit. If he is satisfied with a diminution of fifteen quarters in the return for his second 1000*l.*, it is because no employment more profitable can be found for it. The common rate of profit would be in that proportion, and if the original tenant refused, some other person would be found willing to give all which exceeded that rate of profit to the owner of the land from which he derived it.

In this case, as well as in the other, the capital last employed pays no rent. For the greater productive powers of the first 1000*l.*, fifteen quarters is paid for rent, for the employment of the second 1000*l.*, no rent whatever is paid. If a third 1000*l.* be employed on the same land, with a return of seventy-five quarters, rent will then be paid for the second 1000*l.*, and will be equal to the difference between the produce of these two, or ten quarters; and at the same time the rent of the first 1000*l.* will rise from fifteen to twenty-five quarters; while the last 1000*l.* will pay no rent whatever.

If, then, good land existed in a quantity much more abundant than the production of food for an increasing population required, or if capital could be indefinitely employed without a diminished return on the old land, there could be no rise of rent; for rent invariably proceeds from the employment of an additional quantity of labour with a proportionally less return.

The most fertile and most favourably situated land will be first cultivated, and the exchangeable value of its produce will be adjusted in the same manner as the exchangeable value of all other commodities, by the total quantity of labour necessary in various forms, from first to last, to produce it and bring it to market. When land of an inferior quality is taken into cultivation, the exchangeable value of raw produce will rise, because more labour is required to produce it.

The exchangeable value of all commodities, whether they be manufactured, or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labour that will suffice for their production under circumstances highly favourable, and exclusively enjoyed by those who have peculiar facilities of production; but by the greater quantity of labour necessarily bestowed on their production by those who have no such facilities: by those who continue to produce them under the most unfavourable circumstances; meaning—by the most unfavourable circumstances,

the most unfavourable under which the quantity of produce required, renders it necessary to carry on the production.

Thus, in a charitable institution, where the poor are set to work with the funds of benefactors, the general prices of the commodities, which are the produce of such work, will not be governed by the peculiar facilities afforded to these workmen, but by the common, usual, and natural difficulties, which every other manufacturer will have to encounter. The manufacturer enjoying none of these facilities might indeed be driven altogether from the market, if the supply afforded by these favoured workmen were equal to all the wants of the community; but if he continued the trade, it would be only on condition that he should derive from it the usual and general rate of profits on stock; and that could only happen when his commodity sold for a price proportioned to the quantity of labour bestowed on its production.*

It is true, that on the best land, the same produce would still be obtained with the same labour as before, but its value would be enhanced in consequence of the diminished returns obtained by those who employed fresh labour and stock on the less fertile land. Notwithstanding, then, that the advantages of fertile over inferior lands are in no case lost, but only transferred from the cultivator, or consumer, to the landlord, yet, since more labour is required on the inferior lands, and since it is from such land only that we are enabled to furnish ourselves with the additional supply of raw produce, the comparative value of that produce will continue permanently above its former level, and make it exchange for more hats, cloth, shoes, &c., &c., in the production of which no such additional quantity of labour is required.

The reason then, why raw produce rises in comparative value, is because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord. The value of corn is regulated by the quantity of labour bestowed on its production on that quality of land, or with that portion of

* Has not M. Say forgotten, in the following passage, that it is the cost of production which ultimately regulates price? "The produce of labour employed on the land has this peculiar property, that it does not become more dear by becoming more scarce, because population always diminishes at the same time that food diminishes, and consequently the quantity of these products *demanded*, diminishes at the same time as the quantity supplied. Besides, it is not observed that corn is more dear in those places where there is plenty of uncultivated land, than in completely cultivated countries. England and France were much more imperfectly cultivated in the middle ages than they are now; they produced much less raw produce: nevertheless, from all that we can judge by a comparison with the value of other things, corn was not sold at a dearer price. If the produce was less, so was the population; the weakness of the demand compensated the feebleness of the supply." Vol. ii. 338. M. Say being impressed with the opinion that the price of commodities is regulated by the price of labour, and justly supposing that charitable institutions of all sorts tend to increase the population beyond what it otherwise would be, and therefore to lower wages, says, "I suspect that the cheapness of the goods which come from England is partly caused by the numerous charitable institutions which exist in that country." Vol. ii. 277. This is a consistent opinion in one who maintains that wages regulate price.

capital, which pays no rent. Corn is not high because a rent is paid, but a rent is paid because corn is high; and it has been justly observed, that no reduction would take place in the price of corn, although landlords should forego the whole of their rent. Such a measure would only enable some farmers to live like gentlemen, but would not diminish the quantity of labour necessary to raise raw produce on the least productive land in cultivation.

Nothing is more common than to hear of the advantages which the land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labour, that a share of the original produce of the more fertile portions is set apart for rent. It is singular that this quality in the land, which should have been noticed as an imperfection, compared with the natural agents by which manufacturers are assisted, should have been pointed out as constituting its peculiar pre-eminence. If air, water, the elasticity of steam, and the pressure of the atmosphere, were of various qualities; if they could be appropriated, and each quality existed only in moderate abundance, they, as well as the land, would afford a rent, as the successive qualities were brought into use. With every worse quality employed, the value of the commodities in the manufacture of which they were used, would rise, because equal quantities of labour would be less productive. Man would do more by the sweat of his brow, and nature perform less; and the land would be no longer pre-eminent for its limited powers.

If the surplus produce which land affords in the form of rent be an advantage, it is desirable that, every year, the machinery newly constructed should be less efficient than the old, as that would undoubtedly give a greater exchangeable value to the goods manufactured, not only by that machinery but by all the other machinery in the kingdom; and a rent would be paid to all those who possessed the most productive machinery.*

* "In agriculture, too," says Adam Smith, "nature labours along with man; and though her labour costs no expense, its produce has its value, as well as that of the most expensive workman." The labour of nature is paid, not because she does much, but because she does little. In proportion as she becomes niggardly in her gifts, she exacts a greater price for her work. Where she is munificently beneficent, she always works gratis. "The labouring cattle employed in agriculture, not only occasion, like the workmen in manufactures, the reproduction of a value equal to their own consumption, or to the capital which employs them, together with its owner's profits, but of a much greater value. Over and above the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord. This rent may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmer. It is greater or smaller according to the supposed extent of those powers, or, in other words, according to the supposed natural or improved fertility of the land. It is the work of nature which remains, after deducting or compensating every thing which can be regarded as the work of man. It is seldom less than a fourth, and frequently more than a third of the whole produce. No equal quantity of productive labour employed in manufactures, can ever occasion so great a reproduc-

The rise of rent is always the effect of the increasing wealth of the country, and of the difficulty of providing food for its augmented population. It is a symptom, but it is never a cause of wealth; for wealth often increases most rapidly while rent is either stationary, or even falling. Rent increases most rapidly, as the disposable land decreases in its productive powers. Wealth increases most rapidly in those countries where the disposable land is most fertile, where importation is least restricted, and where, through agricultural improvements, productions can be multiplied without any increase in the proportional quantity of labour, and where consequently the progress of rent is slow.

If the high price of corn were the effect, and not the cause of rent, price would be proportionally influenced as rents were high or low, and rent would be a component part of price. But that corn which is produced by the greatest quantity of labour is the regulator of the price of corn; and rent does not and cannot enter in the least degree as a component part of its price.* Adam Smith, therefore, cannot be correct in supposing that the original rule which regulated the exchangeable value of commodities, namely, the comparative quantity of labour by which they were produced, can be at all altered by the appropriation of land and the payment of rent. Raw material enters into the composition of most commodities, but the value of that raw material, as well as corn, is regulated by the productiveness of the portion of capital last

tion. *In them nature does nothing, man does all;* and the reproduction must always be in proportion to the strength of the agents that occasion it. The capital employed in agriculture, therefore, not only puts into motion a greater quantity of productive labour than any equal capital employed in manufactures, but in proportion too, to the quantity of the productive labour which it employs, it adds a much greater value to the annual produce of the land and labour of the country, to the *real* wealth and revenue of its inhabitants. Of all the ways in which a capital can be employed, it is by far the most advantageous to the society."—Book II. chap. v. p. 15.

Does nature nothing for man in manufactures? Are the powers of wind and water, which move our machinery, and assist navigation, nothing? The pressure of the atmosphere and the elasticity of steam, which enable us to work the most stupendous engines—are they not the gifts of nature? To say nothing of the effects of the matter of heat in softening and melting metals, of the decomposition of the atmosphere in the process of dyeing and fermentation. There is not a manufacture which can be mentioned, in which nature does not give her assistance to man, and give it too, generously and gratuitously.

In remarking on the passage which I have copied from Adam Smith, Mr Buchanan observes, "I have endeavoured to show, in the observations on productive and unproductive labour, contained in the fourth volume, that agriculture adds no more to the national stock than any other sort of industry. In dwelling on the reproduction of rent as so great an advantage to society, Dr Smith does not reflect that rent is the effect of high price, and that what the landlord gains in this way, he gains at the expense of the community at large. There is no absolute gain to the society by the reproduction of rent; it is only one class profiting at the expense of another class. The notion of agriculture yielding a produce, and a rent in consequence, because nature concurs with human industry in the process of cultivation, is a mere fancy. It is not from the produce, but from the price at which the produce is sold, that the rent is derived; and this price is got not because nature assists in the production, but because it is the price which suits the consumption to the supply.

* The clearly understanding this principle is, I am persuaded, of the utmost importance to the science of political economy.

employed on the land, and paying no rent; and therefore rent not a component part of the price of commodities.

We have been hitherto considering the effects of the natural progress of wealth and population on rent, in a country in which the land is of variously productive powers; and we have seen, that with every portion of additional capital which it becomes necessary to employ on the land with a less productive return, rent would rise. It follows from the same principles, that any circumstances in the society which should make it unnecessary to employ the same amount of capital on the land, and which should therefore make the portion last employed more productive, would lower rent. Any great reduction in the capital of a country, which should materially diminish the funds destined for the maintenance of labour, would naturally have this effect. Population regulates itself by the funds which are to employ it, and therefore always increases or diminishes with the increase or diminution of capital. Every reduction of capital is therefore necessarily followed by a less effective demand for corn, by a fall of price, and by diminished cultivation. In the reverse order to that in which the accumulation of capital raises rent, will the diminution of it lower rent. Land of a less unproductive quality will be in succession relinquished, the exchangeable value of produce will fall, and land of a superior quality will be the land last cultivated, and that which will then pay no rent.

The same effects may, however, be produced, when the wealth and population of a country are increased, if that increase is accompanied by such marked improvements in agriculture, as shall have the same effect of diminishing the necessity of cultivating the poorer lands, or of expending the same amount of capital on the cultivation of the more fertile portions.

If a million of quarters of corn be necessary for the support of a given population, and it be raised on land of the qualities of No. 1, 2, 3; and if an improvement be afterwards discovered by which it can be raised on No. 1 and 2, without employing No. 3, it is evident that the immediate effect must be a fall of rent; for No. 2, instead of No. 3, will then be cultivated without paying any rent; and the rent of No. 1, instead of being the difference between the produce of No. 3 and No. 1, will be the difference only between No. 2 and 1. With the same population, and no more, there can be no demand for any additional quantity of corn: the capital and labour employed on No. 3 will be devoted to the production of other commodities desirable to the community, and can have no effect in raising rent, unless the raw material from which they are made cannot be obtained without employing capital less advantageously on the land, in which case No. 3 must again be cultivated.

It is undoubtedly true, that the fall in the relative price of raw produce, in consequence of the improvement in agriculture, or rather in consequence of less labour being bestowed on its production,

ould naturally lead to increased accumulation; for the profits of ck would be greatly augmented. This accumulation would lead o an increased demand for labour, to higher wages, to an increased population, to a further demand for raw produce, and to an increased cultivation. It is only, however, after the increase in the population, that rent would be as high as before; that is to say, after No. 3 was taken into cultivation. A considerable period would have elapsed, attended with a positive diminution of rent.

But improvements in agriculture are of two kinds: those which increase the productive powers of the land, and those which enable us, by improving our machinery, to obtain its produce with less labour. They both lead to a fall in the price of raw produce; they both affect rent, but they do not affect it equally. If they did not occasion a fall in the price of raw produce, they would not be improvements; for it is the essential quality of an improvement to diminish the quantity of labour before required to produce a commodity; and this diminution cannot take place without a fall of its price or relative value.

The improvements which increased the productive powers of the land, are such as the more skilful rotation of crops, or the better choice of manure. These improvements absolutely enable us to obtain the same produce from a smaller quantity of land. If, by the introduction of a course of turnips, I can feed my sheep besides raising my corn, the land on which the sheep were before fed becomes unnecessary, and the same quantity of raw produce is raised by the employment of a less quantity of land. If I discover a manure which will enable me to make a piece of land produce 20 per cent. more corn, I may withdraw at least a portion of my capital from the most unproductive part of my farm. But, as I before observed, it is not necessary that land should be thrown out of cultivation in order to reduce rent: to produce this effect, it is sufficient that successive portions of capital are employed on the same land with different results, and that the portion which gives the least result should be withdrawn. If, by the introduction of the turnip husbandry, or by the use of a more invigorating manure, I can obtain the same produce with less capital, and without disturbing the difference between the productive powers of the successive portions of capital, I shall lower rent; for a different and more productive portion will be that which will form the standard from which every other will be reckoned. If, for example, the successive portions of capital yielded 100, 90, 80, 70; whilst I employed these four portions, my rent would be 60, or the difference between

| | | | |
|---|---|---|---|
| 70 and 100 = 30<br>70 and 90 = 20<br>70 and 80 = 10<br>60 | whilst the produce would be 340 | 100<br>90<br>80<br>70<br>340 |

and while I employed these portions, the rent would remain the same, although the produce of each should have an equal augmentation. If, instead of 100, 90, 80, 70, the produce should be increased to 125, 115, 105, 95, the rent would still be 60, or the difference between

| | | |
|---|---|---|
| 95 and 125 = 30<br>95 and 115 = 20<br>95 and 105 = 10<br>60 | whilst the produce would be increased to 440 | 125<br>115<br>105<br>95<br>440 |

But with such an increase of produce, without an increase of demand,* there could be no motive for employing so much capital on the land; one portion would be withdrawn, and consequently the last portion of capital would yield 105 instead of 95, and rent would fall to 30, or the difference between

| | | |
|---|---|---|
| 105 and 125 = 20<br>105 and 115 = 10<br>30 | whilst the produce will be still adequate to the wants of the population, for it would be 345 quarters, or | 125<br>115<br>105<br>345 |

the demand being only for 340 quarters.—But there are improvements which may lower the relative value of produce without lowering the corn rent, though they will lower the money rent of land. Such improvements do not increase the productive powers of the land; but they enable us to obtain its produce with less labour. They are rather directed to the formation of the capital applied to the land, than to the cultivation of the land itself. Improvements in agricultural implements, such as the plough and the thrashing machine, economy in the use of horses employed in husbandry, and a better knowledge of the veterinary art, are of this nature. Less capital, which is the same thing as less labour, will be employed on the land; but to obtain the same produce, less land cannot be cultivated. Whether improvements of this kind, however, affect corn rent, must depend on the question, whether the difference between the produce obtained by the employment of different portions of capital be increased, stationary, or diminished. If four portions of capital, 50, 60, 70, 80, be employed on the land, giving each the same results, and any improvement in the formation of such capital should enable me to withdraw 5 from each, so that they should be 45, 55, 65, and 75, no alteration would take place in the corn rent; but if the improvements were such as to enable me to make the whole saving on that portion of capital, which is least productively employed, corn rent would immediately fall, because the difference between the capital most productive, and the capital least produc-

* I hope I am not understood as undervaluing the importance of all sorts of improvements in agriculture to landlords—their immediate effect is to lower rent; but as they give a great stimulus to population, and at the same time enable us to cultivate poorer lands with less labour, they are ultimately of immense advantage to landlords. A period, however, must elapse, during which they are positively injurious to him.

tive, would be diminished; and it is this difference which constitutes rent.

Without multiplying instances, I hope enough has been said to show, that whatever diminishes the inequality in the produce obtained from successive portions of capital employed on the same or on new land, tends to lower rent; and that whatever increases that inequality, necessarily produces an opposite effect, and tends to raise it.

In speaking of the rent of the landlord, we have rather considered it as the proportion of the produce, obtained with a given capital on any given farm, without any reference to its exchangeable value; but since the same cause, the difficulty of production, raises the exchangeable value of raw produce, and raises also the proportion of raw produce paid to the landlord for rent, it is obvious that the landlord is doubly benefited by difficulty of production. First, he obtains a greater share, and, secondly, the commodity in which he is paid is of greater value.*

* To make this obvious, and to show the degrees in which corn and money rent will vary, let us suppose that the labour of ten men will, on land of a certain quality, obtain 180 quarters of wheat, and its value to be 4*l.* per quarter, or 720*l.*; and that the labour of ten additional men will, on the same or any other land, produce only 170 quarters in addition; wheat would rise from 4*l.* to 4*l.* 4s. 8d. for 170 : 180 : : 4*l.* : 4*l.* 4s. 8d.; or, as in the production of 170 quarters, the labour of 10 men is necessary in one case, and only of 9·44 in the other, the rise would be as 9·44 to 10, or as 4*l.* to 4*l.* 4s. 8d. If 10 men be further employed, and the return be

| | | | | |
|---|---|---|---|---|
| 160 | the price will rise to | £4 | 10 | 0 |
| 150 | . . . | 4 | 16 | 0 |
| 140 | . . . | 5 | 2 | 10 |

Now, if no rent was paid for the land which yielded 180 quarters, when corn was at 4*l.* per quarter, the value of 10 quarters would be paid as rent when only 170 could be procured, which, at 4*l.* 4s. 8d. would be 42*l.* 7s. 6d.

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 20 quarters | when 160 were produced, which at | £4 | 10 | 0 | would be | £90 | 0 | 0 |
| 30 quarters | . 150 . . . . . | 4 | 16 | 0 | . . . | 144 | 0 | 0 |
| 40 quarters | . 140 . . . . . | 5 | 2 | 10 | . . . | 205 | 13 | 4 |

Corn rent would increase in the proportion of { 100, 200, 300, 400 } and money rent in the proportion of { 100, 212, 340, 485 }

## CHAPTER III.

### ON THE RENT OF MINES.

The metals, like other things, are obtained by labour. Nature, indeed, produces them; but it is the labour of man which extracts them from the bowels of the earth, and prepares them for our service.

Mines, as well as land, generally pay a rent to their owner; and this rent, as well as the rent of land, is the effect, and never the cause of the high value of their produce.

If there were abundance of equally fertile mines, which any one might appropriate, they could yield no rent; the value of their produce would depend on the quantity of labour necessary to extract the metal from the mine and bring it to market.

But there are mines of various qualities, affording very different results, with equal quantities of labour. The metal produced from the poorest mine that is worked, must at least have an exchangeable value, not only sufficient to procure all the clothes, food, and other necessaries consumed by those employed in working it, and bringing the produce to market, but also to afford the common and ordinary profits to him who advances the stock necessary to carry on the undertaking. The return for capital from the poorest mine paying no rent, would regulate the rent of all the other more productive mines. This mine is supposed to yield the usual profits of stock. All that the other mines produce more than this, will necessarily be paid to the owners for rent. Since this principle is precisely the same as that which we have already laid down respecting land, it will not be necessary further to enlarge on it.

It will be sufficient to remark, that the same general rule which regulates the value of raw produce and manufactured commodities, is applicable also to the metals; their value depending not on the rate of profits, nor on the rate of wages, nor on the rent paid for mines, but on the total quantity of labour necessary to obtain the metal, and to bring it to market.

Like every other commodity, the value of the metals is subject to variation. Improvements may be made in the implements and machinery used in mining, which may considerably abridge labour: new and more productive mines may be discovered, in which, with the same labour, more metal may be obtained; or the facilities of

bringing it to market may be increased. In either of these cases the metals would fall in value, and would therefore exchange for a less quantity of other things. On the other hand, from the increasing difficulty of obtaining the metal, occasioned by the greater depth at which the mine must be worked, and the accumulation of water, or any other contingency, its value compared with that of other things, might be considerably increased.

It has therefore been justly observed, that however honestly the coin of a country may conform to its standard, money made of gold and silver is still liable to fluctuations in value, not only to accidental and temporary, but to permanent and natural variations, in the same manner as other commodities.

By the discovery of America, and the rich mines in which it abounds, a very great effect was produced on the natural price of the precious metals. This effect is by many supposed not yet to have terminated. It is probable, however, that all the effects on the value of the metals, resulting from the discovery of America have long ceased; and if any fall has of late years taken place in their value, it is to be attributed to improvements in the mode of working the mines.

From whatever cause it may have proceeded, the effect has been so slow and gradual, that little practical inconvenience has been felt from gold and silver being the general medium in which the value of all other things is estimated. Though undoubtedly a variable measure of value, there is probably no commodity subject to fewer variations. This and the other advantages which these metals possess, such as their hardness, their malleability, their divisibility, and many more, have justly secured the preference every where given to them, as a standard for the money of civilized countries.

If equal quantities of labour, with equal quantities of fixed capital, could at all times obtain, from that mine which paid no rent, equal quantities of gold, gold would be as nearly an invariable measure of value, as we could in the nature of things possess. The quantity indeed would enlarge with the demand, but its value would be invariable, and it would be eminently well calculated to measure the varying value of all other things. I have already in a former part of this work considered gold as endowed with this uniformity, and in the following chapter I shall continue the supposition. In speaking therefore of varying price, the variation will be always considered as being in the commodity, and never in the medium in which it is estimated

## CHAPTER IV.

### ON NATURAL AND MARKET PRICE.

In making labour the foundation of the value of commodities, and the comparative quantity of labour which is necessary to their production, the rule which determines the respective quantities of goods which shall be given in exchange for each other, we must not be supposed to deny the accidental and temporary deviations of the actual or market price of commodities from this, their primary and natural price.

In the ordinary course of events, there is no commodity which continues for any length of time to be supplied precisely in that degree of abundance, which the wants and wishes of mankind require, and therefore there is none which is not subject to accidental and temporary variations of price.

It is only in consequence of such variations, that capital is apportioned precisely, in the requisite abundance and no more, to the production of the different commodities which happen to be in demand. With the rise or fall of price, profits are elevated above, or depressed below, their general level; and capital is either encouraged to enter into, or is warned to depart from, the particular employment in which the variation has taken place.

Whilst every man is free to employ his capital where he pleases, he will naturally seek for it that employment which is most advantageous; he will naturally be dissatisfied with a profit of 10 per cent., if by removing his capital he can obtain a profit of 15 per cent. This restless desire on the part of all the employers of stock, to quit a less profitable for a more advantageous business, has a strong tendency to equalize the rate of profits of all, or to fix them in such proportions as may, in the estimation of the parties, compensate for any advantage which one may have, or may appear to have, over the other. It is perhaps very difficult to trace the steps by which this change is effected: it is probably effected, by a manufacturer not absolutely changing his employment, but only lessening the quantity of capital he has in that employment. In all rich countries, there is a number of men forming what is called the monied class; these men are engaged in no trade, but live on the interest of their money, which is employed in discounting bills, or in loans to the more industrious part of the community. The bankers too employ a large capital on the same objects. The capital

so employed forms a circulating capital of a large amount, and is employed, in larger or smaller proportions, by all the different trades of a country. There is perhaps no manufacturer, however rich, who limits his business to the extent that his own funds alone will allow: he has always some portion of this floating capital of increasing or diminishing according to the activity of the demand for his commodities. When the demand for silks increases, and that for cloth diminishes, the clothier does not remove with his capital to the silk trade, but he dismisses some of his workmen, he discontinues his demand for the loan from bankers and monied men; while the case of the silk manufacturer is the reverse: he wishes to employ more workmen, and thus his motive for borrowing is increased; he borrows more, and thus capital is transferred from one employment to another, without the necessity of a manufacturer discontinuing his usual occupation. When we look to the markets of a large town, and observe how regularly they are supplied both with home and foreign commodities, in the quantity in which they are required, under all the circumstances of varying demand, arising from the caprice of taste, or a change in the amount of population, without often producing either the effects of a glut from a too abundant supply, or an enormously high price from the supply being unequal to the demand, we must confess that the principle which apportions capital to each trade in the precise amount that it is required, is more active than is generally supposed.

A capitalist, in seeking profitable employment for his funds, will naturally take into consideration all the advantages which one occupation possesses over another. He may therefore be willing to forego a part of his money profit, in consideration of the security, cleanliness, ease, or any other real or fancied advantage which one employment may possess over another.

If from a consideration of these circumstances, the profits of stock should be so adjusted, that in one trade they were 20, in another 25, and in another 30 per cent., they would probably continue permanently with that relative difference, and with that difference only; for if any cause should elevate the profits of one of these trades 10 per cent., either these profits would be temporary, and would soon again fall back to their usual station, or the profits of the others would be elevated in the same proportion.

The present time appears to be one of the exceptions to the justness of this remark. The termination of the war has so deranged the division which before existed of employments in Europe, that every capitalist has not yet found his place in the new division which has now become necessary.

Let us suppose that all commodities are at their natural price, and consequently that the profits of capital in all employments are exactly at the same rate, or differ only so much as, in the estimation of the parties, is equivalent to any real or fancied advantage which they possess or forego. Suppose now that a change of fashion

should increase the demand for silks, and lessen that for woollens, their natural price, the quantity of labour necessary to their production, would continue unaltered, but the market price of silks would rise, and that of woollens would fall; and consequently the profits of the silk manufacturer would be above, whilst those of the woollen manufacturer would be below, the general and adjusted rate of profits. Not only the profits, but the wages of the workmen, would be affected in these employments. This increased demand for silks would, however, soon be supplied, by the transference of capital and labour from the woollen to the silk manufacture; when the market prices of silks and woollens would again approach their natural prices, and then the usual profits would be obtained by the respective manufacturers of those commodities.

It is then the desire, which every capitalist has, of diverting his funds from a less to a more profitable employment, that prevents the market price of commodities from continuing for any length of time either much above, or much below their natural price. It is this competition which so adjusts the changeable value of commodities, that after paying the wages for the labour necessary to their production, and all other expenses required to put the capital employed in its original state of efficiency, the remaining value or overplus will in each trade be in proportion to the value of the capital employed.

In the 7th chap. of the Wealth of Nations, all that concerns this question is most ably treated. Having fully acknowledged the temporary effects which, in particular employments of capital, may be produced on the prices of commodities, as well as on the wages of labour, and the profits of stock, by accidental causes, without influencing the general price of commodities, wages, or profits, since these effects are equally operative in all stages of society, we will leave them entirely out of our consideration, whilst we are treating of the laws which regulate natural prices, natural wages, and natural profits, effects totally independent of these accidental causes. In speaking, then, of the exchangeable value of commodities, or the power of purchasing possessed by any one commodity, I mean always that power which it would possess, if not disturbed by any temporary or accidental cause, and which is its natural price.

## CHAPTER V.

### ON WAGES.

Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution.

The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessaries, and conveniences become essential to him from habit, which that money will purchase. The natural price of labour, therefore, depends on the price of the food, necessaries, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessaries, the natural price of labour will rise; with the fall in their price, the natural price of labour will fall.

With the progress of society the natural price of labour has always a tendency to rise, because one of the principal commodities by which its natural price is regulated, has a tendency to become dearer, from the greater difficulty of producing it. As, however, the improvements in agriculture, the discovery of new markets, whence provisions may be imported, may for a time counteract the tendency to a rise in the price of necessaries, and may even occasion their natural price to fall, so will the same causes produce the correspondent effects on the natural price of labour.

The natural price of all commodities, excepting raw produce and labour, has a tendency to fall, in the progress of wealth and population; for though, on one hand, they are enhanced in real value, from the rise in the natural price of the raw material of which they are made, this is more than counterbalanced by the improvements in machinery, by the better division and distribution of labour, and by the increasing skill, both in science and art, of the producers.

The market price of labour is the price which is really paid for it, from the natural operation of the proportion of the supply to the demand; labour is dear when it is scarce, and cheap when it is plentiful. However much the market price of labour may deviate

from its natural price, it has, like commodities, a tendency to conform to it.

It is when the market price of labour exceeds its natural price, that the condition of the labourer is flourishing and happy, that he has it in his power to command a greater proportion of the necessaries and enjoyments of life, and therefore to rear a healthy and numerous family. When, however, by the encouragement which high wages give to the increase of population, the number of labourers is increased, wages again fall to their natural price, and indeed from a reaction sometimes fall below it.

When the market price of labour is below its natural price, the condition of the labourers is most wretched: then poverty deprives them of those comforts which custom renders absolute necessaries. It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price, and that the labourer will have the moderate comforts which the natural rate of wages will afford.

Notwithstanding the tendency of wages to conform to their natural rate, their market rate may, in an improving society, for an indefinite period, be constantly above it; for no sooner may the impulse, which an increased capital gives to a new demand for labour, be obeyed, than another increase of capital may produce the same effect; and thus, if the increase of capital be gradual and constant, the demand for labour may give a continued stimulus to an increase of people.

Capital is that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials, machinery, &c., necessary to give effect to labour.

Capital may increase in quantity at the same time that its value rises. An addition may be made to the food and clothing of a country, at the same time that more labour may be required to produce the additional quantity than before; in that case not only the quantity, but the value of capital will rise.

Or capital may increase without its value increasing, and even while its value is actually diminishing; not only may an addition be made to the food and clothing of a country, but the addition may be made by the aid of machinery, without any increase, and even with an absolute diminution in the proportional quantity of labour required to produce them. The quantity of capital may increase, while neither the whole together, nor any part of it singly, will have a greater value than before, but may actually have a less.

In the first case, the natural price of labour, which always depends on the price of food, clothing, and other necessaries, will rise; in the second, it will remain stationary, or fall; but in both cases the market rate of wages will rise, for in proportion to the increase of capital will be the increase in the demand for labour; in proportion to the work to be done will be the demand for those who are to do it.

In both eases, too, the market priee of labour will rise above its natural priee; and in both eases it will have a tendeney to eonform to its natural priee, but in the first ease this agreement will be most speedily effeeted. The situation of the labourer will be improved, but not much improved; for the inereased price of food and neeessaries will absorb a large portion of his inereased wages; eonsequently a small supply of labour, or a trifling inerease in the population, will soon reduee the market priee to the then increased natural priee of labour.

In the seeond case, the eondition of the labourer will be very greatly improved; he will receive increased money wages, without having to pay any inereased priee, and perhaps even a diminished priee for the commodities whieh he and his family eonsume; and it will not be till after a great addition has been made to the population, that the market priee of labour will again sink to its then low and redueed natural priee.

Thus, then, with every improvement of soeiety, with every inerease in its eapital, the market wages of labour will rise; but the permanenee of their rise will depend on the question, whether the natural priee of labour has also risen; and this again will depend on the rise in the natural priee of those necessaries on whieh the wages of labour are expended.

It is not to be understood that the natural priee of labour, estimated even in food and neeessaries, is absolutely fixed and constant. It varies at different times in the same eountry, and very materially differs in different eountries.* It essentially depends on the habits and eustoms of the people. An English labourer would eonsider his wages under their natural rate, and too seanty to support a family, if they enabled him to purehase no other food than potatoes, and to live in no better habitation than a mud eabin; yet these moderate demands of nature are often deemed suffieient in eountries where "man's life is eheap," and his wants easily satisfied. Many of the eonveniences now enjoyed in an English eottage, would have been thought luxuries at an earlier period of our history.

From manufactured commodities always falling, and raw produce always rising, with the progress of soeiety, such a disproportion in their relative value is at length ereated, that in rich eountries a labourer, by the saerifice of a very small quantity only of his food, is able to provide liberally for all his other wants.

Independently of the variations in the value of money, which necessarily affeet money wages, but whieh we have here supposed

* "The shelter and the elothing which are indispensable in one country may be no way neeessary in another; and a labourer in Hindostan may continue to work with perfect vigour, though receiving, as his natural wages, only such a supply of covering as would be insufficient to preserve a labourer in Russia from perishing. Even in countries situated in the same climate, different habits of living will often occasion variations in the natural priee of labour, as considerable as those whieh are produced by natural causes."—P. 68. *An Essay on the External Corn Trade by R. Torrens, Esq.* The whole of this subject is most ably illustrated by Colonel Torrens.

to have no operation, as we have considered money to be uniformly of the same value, it appears then that wages are subject to a rise or fall from two causes:—

1st, The supply and demand of labourers.

2dly, The price of the commodities on which the wages of labour are expended.

In different stages of society, the accumulation of capital, or of the means of employing labour, is more or less rapid, and must in all cases depend on the productive powers of labour. The productive powers of labour are generally greatest when there is an abundance of fertile land: at such periods accumulation is often so rapid, that labourers cannot be supplied with the same rapidity as capital.

It has been calculated, that under favourable circumstances population may be doubled in twenty-five years; but under the same favourable circumstances the whole capital of a country might possibly be doubled in a shorter period. In that case, wages during the whole period would have a tendency to rise, because the demand for labour would increase still faster than the supply.

In new settlements, where the arts and knowledge of countries far advanced in refinement are introduced, it is probable that capital has a tendency to increase faster than mankind; and if the deficiency of labourers were not supplied by more populous countries, this tendency would very much raise the price of labour. In proportion as these countries become populous, and land of a worse quality is taken into cultivation, the tendency to an increase of capital diminishes; for the surplus produce remaining, after satisfying the wants of the existing population, must necessarily be in proportion to the facility of production, viz. to the smaller number of persons employed in production. Although, then, it is probable, that under the most favourable circumstances, the power of production is still greater than that of population, it will not long continue so; for the land being limited in quantity, and differing in quality, with every increased portion of capital employed on it, there will be a decreased rate of production, whilst the power of population continues always the same.

In those countries where there is abundance of fertile land, but where, from the ignorance, indolence, and barbarism of the inhabitants, they are exposed to all the evils of want and famine, and where it has been said that population presses against the means of subsistence, a very different remedy should be applied from that which is necessary in long settled countries, where, from the diminishing rate of the supply of raw produce, all the evils of a crowded population are experienced. In the one case, the evil proceeds from bad government, from the insecurity of property, and from a want of education in all ranks of the people. To be made happier they require only to be better governed and instructed, as the augmentation of capital, beyond the augmentation of people, would be

the inevitable result. No increase in the population can be too great, as the powers of production are still greater. In the other case, the population increases faster than the funds required for its support. Every exertion of industry, unless accompanied by a diminished rate of increase in the population, will add to the evil, for production cannot keep pace with it.

With a population pressing against the means of subsistence, the only remedies are either a reduction of people, or a more rapid accumulation of capital. In rich countries, where all the fertile land is already cultivated, the latter remedy is neither very practicable nor very desirable, because its effect would be, if pushed very far, to render all classes equally poor. But in poor countries, where there are abundant means of production in store, from fertile land not yet brought into cultivation, it is the only safe and efficacious means of removing the evil, particularly as its effect would be to elevate all classes of the people.

The friends of humanity cannot but wish that in all countries the labouring classes should have a taste for comforts and enjoyments, and that they should be stimulated by all legal means in their exertions to procure them. There cannot be a better security against a superabundant population. In those countries, where the labouring classes have the fewest wants, and are contented with the cheapest food, the people are exposed to the greatest vicissitudes and miseries. They have no place of refuge from calamity; they cannot seek safety in a lower station; they are already so low, that they can fall no lower. On any deficiency of the chief article of their subsistence, there are few substitutes of which they can avail themselves, and dearth to them is attended with almost all the evils of famine.

In the natural advance of society, the wages of labour will have a tendency to fall, as far as they are regulated by supply and demand; for the supply of labourers will continue to increase at the same rate, whilst the demand for them will increase at a slower rate. If, for instance, wages were regulated by a yearly increase of capital, at the rate of 2 per cent., they would fall when it accumulated only at the rate of $1\frac{1}{2}$ per cent. They would fall still lower when it increased only at the rate of 1, or $\frac{1}{2}$ per cent., and would continue to do so until the capital became stationary, when wages also would become stationary, and be only sufficient to keep up the numbers of the actual population. I say that, under these circumstances, wages would fall, if they were regulated only by the supply and demand of labourers; but we must not forget that wages are also regulated by the prices of the commodities on which they are expended.

As population increases, these necessaries will be constantly rising in price, because more labour will be necessary to produce them. If, then, the money wages of labour should fall, whilst every commodity on which the wages of labour were expended

rose, the labourer would be doubly affected, and would be soon totally deprived of subsistence. Instead, therefore, of the money wages of labour falling, they would rise; but they would not rise sufficiently to enable the labourer to purchase as many comforts and necessaries as he did before the rise in the price of those commodities. If his annual wages were before 24*l.*, or six quarters of corn when the price was 4*l.* per quarter, he would probably receive only the value of five quarters when corn rose to 5*l.* per quarter. But five quarters would cost 25*l.*; he would, therefore, receive an addition in his money wages, though with that addition he would be unable to furnish himself with the same quantity of corn and other commodities which he had before consumed in his family.

Notwithstanding, then, that the labourer would be really worse paid, yet this increase in his wages would necessarily diminish the profits of the manufacturer; for his goods would sell at no higher price, and yet the expense of producing them would be increased. This, however, will be considered in our examination into the principles which regulate profits.

It appears, then, that the same cause which raises rent, namely, the increasing difficulty of providing an additional quantity of food with the same proportional quantity of labour, will also raise wages; and therefore, if money be of an unvarying value, both rent and wages will have a tendency to rise with the progress of wealth and population.

But there is this essential difference between the rise of rent and the rise of wages. The rise in the money value of rent is accompanied by an increased share of the produce; not only is the landlord's money rent greater, but his corn rent also; he will have more corn, and each defined measure of that corn will exchange for a greater quantity of all other goods which have not been raised in value. The fate of the labourer will be less happy; he will receive more money wages, it is true, but his corn wages will be reduced; and not only his command of corn, but his general condition will be deteriorated, by his finding it more difficult to maintain the market rate of wages above their natural rate. While the price of corn rises 10 per cent., wages will always rise less than 10 per cent., but rent will always rise more; the condition of the labourer will generally decline, and that of the landlord will always be improved.

When wheat was at 4*l.* per quarter, suppose the labourer's wages to be 24*l.* per annum, or the value of six quarters of wheat, and suppose half his wages to be expended on wheat, and the other half, or 12*l.*, on other things. He would receive

| | | | | |
|---|---|---|---|---|
| 24*l.* 14s.<br>25*l.* 10s.<br>26*l.* 8s.<br>27*l.* 8s. 6d. | when wheat was at | 4*l.* 4s. 8d.<br>4*l.* 10s.<br>4*l.* 16s.<br>5*l.* 2s. 10d. | or the value of | 5.83 quarters.<br>5.66 quarters.<br>5·50 quarters.<br>5.33 quarters. |

He would receive these wages to enable him to live just as well,

and no better, than before; for when corn was at 4*l.* per quarter, he would expend for three quarters of corn, at 4*l.* per qr. . 12*l.*
and on other things . . . . . 12*l.*

24*l.*

When wheat was 4*l.* 4s. 8d., three quarters, which he and his family consumed, would cost him . . . . . 12*l.* 14s.
other things not altered in price . . . . . 12*l.*

24*l.* 14s.

When at 4*l.* 10s., three quarters of wheat would cost . 13*l.* 10s.
and other things . . . . . 12*l.*

25*l.* 10s.

When at 4*l.* 16s., three quarters of wheat . . . . . 14*l.* 8s.
other things . . . . . 12*l.*

26*l.* 8s.

When at 5*l.* 2s. 10d., three qrs. of wheat would cost 15*l.* 8s. 6d.
other things . . . . . 12*l.*

27*l.* 8s. 6d.

In proportion as corn became dear, he would receive less corn wages, but his money wages would always increase, whilst his enjoyments, on the above supposition, would be precisely the same. But as other commodities would be raised in price in proportion as raw produce entered into their composition, he would have more to pay for some of them. Although his tea, sugar, soap, candles, and house rent, would probably be no dearer, he would pay more for his bacon, cheese, butter, linen, shoes, and cloth; and therefore, even with the above increase of wages, his situation would be comparatively worse. But it may be said that I have been considering the effect of wages on price, on the supposition that gold, or the metal from which money is made, is the produce of the country in which wages varied; and that the consequences which I have deduced agree little with the actual state of things, because gold is a metal of foreign production. The circumstance, however, of gold being a foreign production, will not invalidate the truth of the argument, because it may be shown, that whether it were found at home, or were imported from abroad, the effects ultimately, and, indeed, immediately, would be the same.

When wages rise, it is generally because the increase of wealth and capital have occasioned a new demand for labour, which will

infallibly be attended with an increased production of commodities. To circulate these additional commodities, even at the same prices as before, more money is required, more of this foreign commodity from which money is made, and which can only be obtained by importation. Whenever a commodity is required in greater abundance than before, its relative value rises comparatively with those commodities with which its purchase is made. If more hats were wanted, their price would rise, and more gold would be given for them. If more gold were required, gold would rise, and hats would fall in price, as a greater quantity of hats and of all other things would then be necessary to purchase the same quantity of gold. But in the case supposed, to say that commodities will rise, because wages rise, is to affirm a positive contradiction; for we, first, say that gold will rise in relative value in consequence of demand, and, secondly, that it will fall in relative value because prices will rise, two effects which are totally incompatible with each other. To say that commodities are raised in price, is the same thing as to say that money is lowered in relative value; for it is by commodities that the relative value of gold is estimated. If, then, all commodities rose in price, gold could not come from abroad to purchase those dear commodities, but it would go from home to be employed with advantage in purchasing the comparatively cheaper foreign commodities. It appears, then, that the rise of wages will not raise the prices of commodities, whether the metal from which money is made be produced at home or in a foreign country. All commodities cannot rise at the same time without an addition to the quantity of money. This addition could not be obtained at home, as we have already shown; nor could it be imported from abroad. To purchase any additional quantity of gold from abroad, commodities at home must be cheap, not dear. The importation of gold, and a rise in the price of all home-made commodities with which gold is purchased or paid for, are effects absolutely incompatible. The extensive use of paper money does not alter this question, for paper money conforms, or ought to conform, to the value of gold, and therefore its value is influenced by such causes only as influence the value of that metal.

These, then, are the laws by which wages are regulated, and by which the happiness of far the greatest part of every community is governed. Like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature.

The clear and direct tendency of the poor laws is in direct opposition to these obvious principles: it is not, as the legislature benevolently intended, to amend the condition of the poor, but to deteriorate the condition of both poor and rich; instead of making the poor rich, they are calculated to make the rich poor; and whilst the present laws are in force, it is quite in the natural order

of things that the fund for the maintenance of the poor should progressively increase till it has absorbed all the net revenue of the country, or at least so much of it as the state shall leave to us, after satisfying its own never-failing demands for the public expenditure.*

This pernicious tendency of these laws is no longer a mystery, since it has been fully developed by the able hand of Mr Malthus; and every friend to the poor must ardently wish for their abolition. Unfortunately, however, they have been so long established, and the habits of the poor have been so formed upon their operation, that to eradicate them with safety from our political system, requires the most cautious and skilful management. It is agreed by all who are most friendly to a repeal of these laws, that if it be desirable to prevent the most overwhelming distress to those for whose benefit they were erroneously enacted, their abolition should be effected by the most gradual steps.

It is a truth which admits not a doubt, that the comforts and well-being of the poor cannot be permanently secured without some regard on their part, or some effort on the part of the legislature, to regulate the increase of their numbers, and to render less frequent among them early and improvident marriages. The operation of the system of poor laws has been directly contrary to this. They have rendered restraint superfluous, and have invited imprudence, by offering it a portion of the wages of prudence and industry.†

The nature of the evil points out the remedy. By gradually contracting the sphere of the poor laws; by impressing on the poor the value of independence, by teaching them that they must look not to systematic or casual charity, but to their own exertions for support, that prudence and fore-thought are neither unnecessary nor unprofitable virtues, we shall by degrees approach a sounder and more healthful state.

No scheme for the amendment of the poor laws merits the least attention, which has not their abolition for its ultimate object; and he is the best friend to the poor, and to the cause of humanity, who

* With Mr Buchanan, in the following passage, if it refers to temporary states of misery, I so far agree, that "the great evil of the labourer's condition is poverty, arising either from a scarcity of food or of work; and in all countries, laws without number have been enacted for his relief. But there are miseries in the social state which legislation cannot relieve; and it is useful therefore to know its limits, that we may not, by aiming at what is impracticable, miss the good which is really in our power."—*Buchanan*, p. 61.

† The progress of knowledge manifested upon this subject in the House of Commons since 1796, has happily not been very small, as may be seen by contrasting the late report of the committee on the poor laws, and the following sentiments of Mr Pitt, in that year:—"Let us," said he, "make relief in cases where there are a number of children a matter of right and honour, instead of a ground of opprobrium and contempt. This will make a large family a blessing, and not a curse; and this will draw a proper line of distinction between those who are able to provide for themselves by their labour, and those who, after having enriched their country with a number of children, have a claim upon its assistance for support."—*Hansard's Parliamentary History*, vol. xxxii. p. 710.

can point out how this end can be attained with the most security, and at the same time with the least violence. It is not by raising in any manner different from the present, the fund from which the poor are supported, that the evil can be mitigated. It would not only be no improvement, but it would be an aggravation of the distress which we wish to see removed, if the fund were increased in amount, or were levied according to some late proposals, as a general fund from the country at large. The present mode of its collection and application has served to mitigate its pernicious effects. Each parish raises a separate fund for the support of its own poor. Hence it becomes an object of more interest and more practicability to keep the rates low, than if one general fund were raised for the relief of the poor of the whole kingdom. A parish is much more interested in an economical collection of the rate, and a sparing distribution of relief, when the whole saving will be for its own benefit, than if hundreds of other parishes were to partake of it.

It is to this cause, that we must ascribe the fact of the poor laws not having yet absorbed all the net revenue of the country; it is to the rigour with which they are applied, that we are indebted for their not having become overwhelmingly oppressive. If by law every human being wanting support could be sure to obtain it, and obtain it in such a degree as to make life tolerably comfortable, theory would lead us to expect that all other taxes together would be light compared with the single one of poor rates. The principle of gravitation is not more certain than the tendency of such laws to change wealth and power into misery and weakness; to call away the exertions of labour from every object, except that of providing mere subsistence; to confound all intellectual distinction: to busy the mind continually in supplying the body's wants: until at last all classes should be infected with the plague of universal poverty. Happily these laws have been in operation during a period of progressive prosperity, when the funds for the maintenance of labour have regularly increased, and when an increase of population would be naturally called for. But if our progress should become more slow; if we should attain the stationary state, from which I trust we are yet far distant, then will the pernicious nature of these laws become more manifest and alarming; and then, too, will their removal be obstructed by many additional difficulties.

## CHAPTER VI.

### ON PROFITS.

The profits of stock, in different employments, having been shown to bear a proportion to each other, and to have a tendency to vary all in the same degree and in the same direction, it remains for us to consider what is the cause of the permanent variations in the rate of profit, and the consequent permanent alterations in the rate of interest.

We have seen that the price* of corn is regulated by the quantity of labour necessary to produce it, with that portion of capital which pays no rent. We have seen, too, that all manufactured commodities rise and fall in price, in proportion as more or less labour becomes necessary to their production. Neither the farmer who cultivates that quantity of land, which regulates price, nor the manufacturer, who manufactures goods, sacrifice any portion of the produce for rent. The whole value of their commodities is divided into two portions only: one constitutes the profits of stock, the other the wages of labour.

Supposing corn and manufactured goods always to sell at the same price, profits would be high or low in proportion as wages were low or high. But suppose corn to rise in price because more labour is necessary to produce it; that cause will not raise the price of manufactured goods in the production of which no additional quantity of labour is required. If, then, wages continued the same, the profits of manufacturers would remain the same; but if, as is absolutely certain, wages should rise with the rise of corn, then their profits would necessarily fall.

If a manufacturer always sold his goods for the same money, for 1000*l.*, for example, his profits would depend on the price of the labour necessary to manufacture those goods. His profits would be less when wages amounted to 800*l.* than when he paid only 600*l.* In proportion then as wages rose, would profits fall. But if the

* The reader is desired to bear in mind, that for the purpose of making the subject more clear, I consider money to be invariable in value, and therefore every variation of price to be referable to an alteration in the value of the commodity.

price of raw produce would increase, it may be asked, whether the farmer at least would not have the same rate of profits, although he should pay an additional sum for wages? Certainly not: for he will not only have to pay, in common with the manufacturer, an increase of wages to each labourer he employs, but he will be obliged either to pay rent, or to employ an additional number of labourers to obtain the same produce; and the rise in the price of raw produce will be proportioned only to that rent, or that additional number, and will not compensate him for the rise of wages.

If both the manufacturer and farmer employed ten men, on wages, rising from 24*l.* to 25*l.* per annum per man, the whole sum paid by each would be 250*l.* instead of 240*l.* This is, however, the whole addition that would be paid by the manufacturer to obtain the same quantity of commodities; but the farmer on new land would probably be obliged to employ an additional man, and therefore to pay an additional sum of 25*l.* for wages; and the farmer on the old land would be obliged to pay precisely the same additional sum of 25*l.* for rent; without which additional labour, corn would not have risen, nor rent have been increased. One will therefore have to pay 275*l.* for wages alone, the other, for wages and rent together; each 25*l.* more than the manufacturer: for this latter 25*l.* the farmer is compensated by the addition to the price of raw produce, and therefore his profits still conform to the profits of the manufacturer. As this proposition is important, I will endeavour still further to elucidate it.

We have shown that in early stages of society, both the landlord's and the labourer's share of the *value* of the produce of the earth would be but small; and that it would increase in proportion to the progress of wealth, and the difficulty of procuring food. We have shown, too, that although the value of the labourer's portion will be increased by the high value of food, his real share will be diminished; whilst that of the landlord will not only be raised in value, but will also be increased in quantity.

The remaining quantity of the produce of the land, after the landlord and labourer are paid, necessarily belongs to the farmer, and constitutes the profits of his stock. But it may be alleged, that though, as society advances, his proportion of the whole produce will be diminished, yet as it will rise in value, he, as well as the landlord and labourer, may, notwithstanding, receive a greater value.

It may be said, for example, that when corn rose from 4*l.* to 10*l.*, the 180 quarters obtained from the best land would sell for 1800*l.* instead of 720*l.*; and, therefore, though the landlord and labourer be proved to have a greater value for rent and wages, still the value of the farmer's profit might also be augmented. This, however, is impossible, as I shall now endeavour to show.

In the first place, the price of corn would rise only in propor-

tion to the increased difficulty of growing it on land of a worse quality.

It has been already remarked, that if the labour of ten men will, on land of a certain quality, obtain 180 quarters of wheat, and its value be 4*l.* per quarter, or 720*l.*; and if the labour of ten additional men will, on the same or any other land, produce only 170 quarters in addition, wheat would rise from 4*l.* to 4*l.* 4s. 8d.; for 170 : 180 : : 4*l.* : 4*l.* 4s. 8d. In other words, as for the production of 170 quarters, the labour of ten men is necessary, in the one case, and only that of 9.44 in the other, the rise would be as 9.44 to 10, or, as 4*l.* to 4*l.* 4s. 8d. In the same manner it might be shown, that if the labour of ten additional men would only produce 160 quarters, the price would further rise to 4*l.* 10s.; if 150, to 4*l.* 16s., &c. &c.

| | |
|---|---|
| But when 180 quarters were produced on the land paying no rent, and its price was 4*l.* per quarter, it is sold for . . . . | £720 |
| And when 170 quarters were produced on the land paying no rent, and the price rose to 4*l.* 4s. 8d., it still sold for . | 720 |
| So 160 quarters at 4*l.* 10s. produce . . . . . | 720 |
| And 150 quarters at 4*l.* 16s. produce the same sum of . . | 720 |

Now, it is evident, that if, out of these equal values, the farmer is at one time obliged to pay wages regulated by the price of wheat at 4*l.*, and at other times at higher prices, the rate of his profits will diminish in proportion to the rise in the price of corn.

In this case, therefore, I think it is clearly demonstrated that a rise in the price of corn, which increases the money wages of the labourer, diminishes the money value of the farmer's profits.

But the case of the farmer of the old and better land will be in no way different; he also will have increased wages to pay, and will never retain more of the value of the produce, however high may be its price, than 720*l.* to be divided between himself and his always equal number of labourers; in proportion therefore as they get more, he must retain less.

When the price of corn was at 4*l.*, the whole 180 quarters belonged to the cultivator, and he sold it for 720*l.* When corn rose to 4*l.* 4s. 8d., he was obliged to pay the value of ten quarters out of his 180 for rent, consequently the remaining 170 yielded him no more than 720*l.*: when it rose further to 4*l.* 10s., he paid twenty quarters, or their value, for rent, and consequently only retained 160 quarters, which yielded the same sum of 720*l.*

It will be seen, then, that whatever rise may take place in the price of corn, in consequence of the necessity of employing more labour and capital to obtain a given additional quantity of produce, such rise will always be equalled in value by the additional

rent, or additional labour employed; so that whether corn sells for 4*l.*, 4*l.* 10s., or 5*l.* 2s. 10d., the farmer will obtain for that which remains to him, after paying rent, the same real value. Thus we see, that whether the produce belonging to the farmer be 180, 170, 160, or 150 quarters, he always obtains the same sum of 720*l.* for it; the price increasing in an inverse proportion to the quantity.

Rent, then, it appears, always falls on the consumer, and never on the farmer; for if the produce of his farm should uniformly be 180 quarters, with the rise of price, he would retain the value of a less quantity for himself, and give the value of a larger quantity to his landlord; but the deduction would be such as to leave him always the same sum of 720*l.*

It will be seen too, that, in all cases, the same sum of 720*l.* must be divided between wages and profits. If the value of the raw produce from the land exceed this value, it belongs to rent, whatever may be its amount. If there be no excess, there will be no rent. Whether wages or profits rise or fall, it is this sum of 720*l.* from which they must both be provided. On the one hand, profits can never rise so high as to absorb so much of this 720*l.* that enough will not be left to furnish the labourers with absolute necessaries; on the other hand, wages can never rise so high as to leave no portion of this sum for profits.

Thus in every case, agricultural, as well as manufacturing profits are lowered by a rise in the price of raw produce, if it be accompanied by a rise of wages.* If the farmer gets no additional value for the corn which remains to him after paying rent, if the manufacturer gets no additional value for the goods which he manufactures, and if both are obliged to pay a greater value in wages, can any point be more clearly established than that profits must fall, with a rise of wages?

The farmer, then, although he pays no part of his landlord's rent, that being always regulated by the price of produce, and invariably falling on the consumers, has however a very decided interest in keeping rent low, or rather in keeping the natural price of produce low. As a consumer of raw produce, and of those things into which raw produce enters as a component part, he will, in common with all other consumers, be interested in keeping the price low. But he is most materially concerned with the high price of corn as it affects wages. With every rise in the price of corn, he will have to pay, out of an equal and unvarying sum of 720*l.*, an additional sum for wages to the ten men whom he is supposed constantly to employ. We have seen, in treating on wages, that they invariably rise with the rise in the price of raw produce. On a basis assumed for the

* The reader is aware, that we are leaving out of our consideration the accidental variations arising from bad and good seasons, or from the demand increasing or diminishing by any sudden effect on the state of population. We are speaking of the natural and constant, not of the accidental and fluctuating, price of corn.

purpose of calculation, page 56, it will be seen that if when wheat is at 4*l.* per quarter, wages should be 24*l.* per annum,

| When Wheat is at | £ | s. | d. | wages would be | £ | s. | d. |
|---|---|---|---|---|---|---|---|
| | 4 | 4 | 8 | | 24 | 14 | 0 |
| | 4 | 10 | 0 | | 25 | 10 | 0 |
| | 4 | 16 | 0 | | 26 | 8 | 0 |
| | 5 | 2 | 10 | | 27 | 8 | 6 |

Now, of the unvarying fund of 720*l.* to be distributed between labourers and farmers,

| When the price of Wheat is at | £ | s. | d. | the labourers will receive | £ | s. | d. | the farmer will receive | £ | s. | d. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 4 | 0 | 0 | | 240 | 0 | 0 | | 480 | 0 | 0 |
| | 4 | 4 | 8 | | 247 | 0 | 0 | | 473 | 0 | 0 |
| | 4 | 10 | 0 | | 255 | 0 | 0 | | 465 | 0 | 0 |
| | 4 | 16 | 0 | | 264 | 0 | 0 | | 456 | 0 | 0 |
| | 5 | 2 | 10 | | 274 | 5 | 0 | | 445 | 15 | * |

And supposing that the original capital of the farmer was 3000*l.*, the profits of his stock being in the first instance 480*l.*, would be at the rate of 16 per cent. When his profits fell to 473*l.*, they would be at the rate of 15.7 per cent.

| | |
|---|---|
| 465*l.* . . . . . | 15.5 |
| 456*l.* . . . . . | 15.2 |
| 445*l.* . . . . . | 14.8 |

But the *rate* of profits will fall still more, because the capital of the farmer, it must be recollected, consists in a great measure of raw produce, such as his corn and hay-ricks, his unthreshed wheat and barley, his horses and cows, which would all rise in price in consequence of the rise of produce. His absolute profits would fall from 480*l.* to 445*l.* 15s.; but if, from the cause which I have just stated, his capital should rise from 3000*l.* to 3,200*l.*, the rate of his profits would, when corn was at 5*l.* 2s. 10d., be under 14 per cent.

If a manufacturer had also employed 3000*l.* in his business, he would be obliged, in consequence of the rise of wages, to increase

* The 180 quarters of corn would be divided in the following proportions between landlords, farmers, and labourers, with the above-named variations in the value of corn.

| Price per qr. £ | s. | d. | Rent. In Wheat. | Profit. In Wheat. | Wages. In Wheat. | Total. |
|---|---|---|---|---|---|---|
| 4 | 0 | 0 | None. | 120 qrs. | 60 qrs. | |
| 4 | 4 | 8 | 10 qrs. | 111.7 | 58.3 | |
| 4 | 10 | 0 | 20 | 103.4 | 56.6 | 180 |
| 4 | 16 | 0 | 30 | 95 | 55 | |
| 5 | 2 | 10 | 40 | 86.7 | 53.3 | |

and, under the same circumstances, money rent, wages, and profit, would be as follows:

| Price per qr. £ | s. | d. | Rent. £ | s. | d. | Profit. £ | s. | d. | Wages. £ | s. | d. | Total. £ | s. | d. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4 | 0 | 0 | None. | | | 480 | 0 | 0 | 240 | 0 | 0 | 720 | 0 | 0 |
| 4 | 4 | 8 | 42 | 7 | 6 | 473 | 0 | 0 | 247 | 0 | 0 | 762 | 7 | 6 |
| 4 | 10 | 0 | 90 | 0 | 0 | 465 | 0 | 0 | 255 | 0 | 0 | 810 | 0 | 0 |
| 4 | 16 | 0 | 144 | 0 | 0 | 456 | 0 | 0 | 264 | 0 | 0 | 864 | 0 | 0 |
| 5 | 2 | 10 | 205 | 13 | 4 | 445 | 15 | 0 | 274 | 5 | 0 | 925 | 13 | 4 |

his capital, in order to be enabled to carry on the same business. If his commodities sold before for 720*l.* they would continue to sell at the same price; but the wages of labour, which were before 240*l.*, would rise, when corn was at 5*l.* 2s. 10d., to 274*l.* 5s. In the first case he would have a balance of 480*l.* as profit on 3000*l.*, in the second he would have a profit only of 445*l.* 15s., on an increased capital, and therefore his profits would conform to the altered rate of those of the farmer.

There are few commodities which are not more or less affected in their price by the rise of raw produce, because some raw material from the land enters into the composition of most commodities. Cotton goods, linen, and cloth, will all rise in price with the rise of wheat; but they rise on account of the greater quantity of labour expended on the raw material from which they are made, and not because more was paid by the manufacturer to the labourers whom he employed on those commodities.

In all cases, commodities rise because more labour is expended on them, and not because the labour which is expended on them is at a higher value. Articles of jewellery, of iron, of plate, and of copper, would not rise, because none of the raw produce from the surface of the earth enters into their composition.

It may be said that I have taken it for granted, that money wages would rise with a rise in the price of raw produce, but that this is by no means a necessary consequence, as the labourer may be contented with fewer enjoyments. It is true that the wages of labour may previously have been at a high level, and that they may bear some reduction. If so, the fall of profits will be checked; but it is impossible to conceive that the money price of wages should fall, or remain stationary with a gradually increasing price of necessaries; and therefore it may be taken for granted that, under ordinary circumstances, no permanent rise takes place in the price of necessaries, without occasioning, or having been preceded by, a rise in wages.

The effects produced on profits would have been the same, or nearly the same, if there had been any rise in the price of those other necessaries, besides food, on which the wages of labour are expended. The necessity which the labourer would be under of paying an increased price for such necessaries, would oblige him to demand more wages; and whatever increases wages, necessarily reduces profits. But suppose the price of silks, velvets, furniture, and any other commodities, not required by the labourer, to rise in consequence of more labour being expended on them, would not that affect profits? Certainly not: for nothing can affect profits but a rise in wages; silks and velvets are not consumed by the labourer, and therefore cannot raise wages.

It is to be understood that I am speaking of profits generally. I have already remarked, that the market price of a commodity may exceed its natural or necessary price, as it may be produced

in less abundance than the new demand for it requires. This, however, is but a temporary effect. The high profits on capital employed in producing that commodity, will naturally attract capital to that trade; and as soon as the requisite funds are supplied, and the quantity of the commodity is duly increased, its price will fall, and the profits of the trade will conform to the general level. A fall in the general rate of profits is by no means incompatible with a partial rise of profits in particular employments. It is through the inequality of profits, that capital is moved from one employment to another. Whilst, then, general profits are falling, and gradually settling at a lower level in consequence of the rise of wages, and the increasing difficulty of supplying the increasing population with necessaries, the profits of the farmer may, for an interval of some little duration, be above the former level. An extraordinary stimulus may be also given for a certain time, to a particular branch of foreign and colonial trade; but the admission of this fact by no means invalidates the theory, that profits depend on high or low wages, wages on the price of necessaries, and the price of necessaries chiefly on the price of food, because all other requisites may be increased almost without limit.

It should be recollected that prices always vary in the market, and in the first instance, through the comparative state of demand and supply. Although cloth could be furnished at 40s. per yard, and give the usual profits of stock, it may rise to 60s. or 80s. from a general change of fashion, or from any other cause which should suddenly and unexpectedly increase the demand, or diminish the supply of it. The makers of cloth will for a time have unusual profits, but capital will naturally flow to that manufacture, till the supply and demand are again at their fair level, when the price of cloth will again sink to 40s., its natural or necessary price. In the same manner, with every increased demand for corn, it may rise so high as to afford more than the general profits to the farmer. If there be plenty of fertile land, the price of corn will again fall to its former standard, after the requisite quantity of capital has been employed in producing it, and profits will be as before; but if there be not plenty of fertile land, if, to produce this additional quantity, more than the usual quantity of capital and labour be required, corn will not fall to its former level. Its natural price will be raised, and the farmer, instead of obtaining permanently larger profits, will find himself obliged to be satisfied with the diminished rate which is the inevitable consequence of the rise of wages, produced by the rise of necessaries.

The natural tendency of profits then is to fall; for, in the progress of society and wealth, the additional quantity of food required is obtained by the sacrifice of more and more labour. This tendency, this gravitation as it were of profits, is happily checked at repeated intervals by the improvements in machinery connected with the production of necessaries, as well as by discoveries in the

science of agriculture, which enable us to relinquish a portion of labour before required, and therefore to lower the price of the prime necessary of the labourer. The rise in the price of necessaries and in the wages of labour is, however, limited; for as soon as wages should be equal (as in the case formerly stated) to 720*l.*, the whole receipts of the farmer, there must be an end of accumulation; for no capital can then yield any profit whatever, and no additional labour can be demanded, and consequently population will have reached its highest point. Long, indeed, before this period, the very low rate of profits will have arrested all accumulation, and almost the whole produce of the country, after paying the labourers, will be the property of the owners of land and the receivers of tithes and taxes.

Thus, taking the former very imperfect basis as the grounds of my calculation, it would appear that when corn was at 20*l.* per quarter, the whole net income of the country would belong to the landlords, for then the same quantity of labour that was originally necessary to produce 180 quarters, would be necessary to produce 36; since 20*l.* : 4*l.* : : 180 : 36. The farmer, then, who produced 180 quarters, (if any such there were, for the old and new capital employed on the land would be so blended, that it could in no way be distinguished), would sell the

| | | |
|---|---|---|
| | 180 qrs. at 20*l.* per qr. or . . . . . | L.3600 |
| the value of 144 qrs. | to landlord for rent, being the difference between 36 and 180 qrs. | 2880 |
| | 36 qrs. | 720 |
| | the value of 36 qrs. to labourers, ten in number, . . . . . | 720 |

leaving nothing whatever for profit.

I have supposed that at this price of 20*l.* the labourers would continue to consume three quarters each per annum, or . . . . L.60
And that on the other commodities they would expend 12

72 for each labourer.

And therefore ten labourers would cost 720*l.* per annum.

In all these calculations I have been desirous only to elucidate the principle, and it is scarcely necessary to observe, that my whole basis is assumed at random, and merely for the purpose of exemplification. The results, though different in degree, would have been the same in principle, however accurately I might have set out in stating the difference in the number of labourers necessary to obtain the successive quantities of corn required by an increasing population, the quantity consumed by the labourer's family, &c. &c. My object has been to simplify the subject, and I have therefore made no allowance for the increasing price of the other necessaries, besides food of the labourer; an increase which would be the consequence of the increased value of the raw materials from which

they are made, and which would of course further increase wages, and lower profits.

I have already said, that long before this state of prices was become permanent, there would be no motive for accumulation; for no one accumulates but with a view to make his accumulation productive, and it is only when so employed that it operates on profits. Without a motive there could be no accumulation, and consequently such a state of prices never could take place. The farmer and manufacturer can no more live without profit, than the labourer without wages. Their motive for accumulation will diminish with every diminution of profit, and will cease altogether when their profits are so low as not to afford them an adequate compensation for their trouble, and the risk which they must necessarily encounter in employing their capital productively.

I must again observe, that the rate of profits would fall much more rapidly than I have estimated in my calculation; for the value of the produce being what I have stated it under the circumstances supposed, the value of the farmer's stock would be greatly increased from its necessarily consisting of many of the commodities which had risen in value. Before corn could rise from 4*l.* to 12*l.*, his capital would probably be doubled in exchangeable value, and be worth 6000*l.* instead of 3000*l.* If then his profit were 180*l.*, or 6 per cent. on his original capital, profits would not at that time be really at a higher *rate* than 3 per cent.; for 6000*l.* at 3 per cent. gives 180*l.*; and on those terms only could a new farmer with 6000*l.* money in his pocket enter into the farming business.

Many trades would derive some advantage, more or less, from the same source. The brewer, the distiller, the clothier, the linen manufacturer, would be partly compensated for the diminution of their profits, by the rise in the value of their stock of raw and finished materials; but a manufacturer of hardware, of jewellery, and of many other commodities, as well as those whose capitals uniformly consisted of money, would be subject to the whole fall in the rate of profits, without any compensation whatever.

We should also expect that, however the rate of the profits of stock might diminish in consequence of the accumulation of capital on the land, and the rise of wages, yet that the aggregate amount of profits would increase. Thus, supposing that, with repeated accumulations of 100,000*l.*, the rate of profit should fall from 20 to 19, to 18, to 17 per cent., a constantly diminishing rate, we should expect that the whole amount of profits received by those successive owners of capital would be always progressive; that it would be greater when the capital was 200,000*l.*, than when 100,000*l.*; still greater when 300,000*l.*; and so on, increasing, though at a diminishing rate, with every increase of capital. This progression, however, is only true for a certain time; thus, 19 per cent. on 200,000*l.* is more than 20 on 100,000*l.*; again, 18 per cent. on 300,000*l.* is more than 19 per cent. on 200,000*l.*; but after capital

has accumulated to a large amount, and profits have fallen, the further accumulation diminishes the aggregate of profits. Thus, suppose the accumulation should be 1,000,000*l.*, and the profits 7 per cent., the whole amount of profits will be 70,000*l.*; now if an addition of 100,000*l.* capital be made to the million, and profits should fall to 6 per cent., 66,000*l.* or a diminution of 4000*l.* will be received by the owners of stock, although the whole amount of stock will be increased from 1,000,000*l.* to 1,100,000*l.*

There can, however, be no accumulation of capital, so long as stock yields any profit at all, without its yielding not only an increase of produce, but an increase of value. By employing 100,000*l.* additional capital, no part of the former capital will be rendered less productive. The produce of the land and labour of the country must increase, and its value will be raised, not only by the value of the addition which is made to the former quantity of productions, but by the new value which is given to the whole produce of the land, by the increased difficulty of producing the last portion of it. When the accumulation of capital, however, becomes very great, notwithstanding this increased value, it will be so distributed that a less value than before will be appropriated to profits, while that which is devoted to rent and wages will be increased. Thus with successive additions of 100,000*l.* to capital, with a fall in the rate of profits, from 20 to 19, to 18, to 17 per cent., &c., the productions annually obtained will increase in quantity, and be of more that the whole additional value, which the additional capital is calculated to produce. From 20,000*l.* it will rise to more than 39,000*l.*, and then to more than 57,000*l.*, and when the capital employed is a million, as we before supposed, if 100,000*l.* more be added to it, and the aggregate of profits is actually lower than before, more than 6000*l.* will nevertheless be added to the revenue of the country, but it will be to the revenue of the landlords and labourers: they will obtain more than the additional produce, and will from their situation be enabled to encroach even on the former gains of the capitalist. Thus, suppose the price of corn to be 4*l.* per quarter, and that therefore, as we before calculated, of every 720*l.* remaining to the farmer after payment of his rent, 480*l.* were retained by him, and 240*l.* were paid to his labourers; when the price rose to 6*l.* per quarter, he would be obliged to pay his labourers 300*l.* and retain only 420*l.* for profits: he would be obliged to pay them 300*l.* to enable them to consume the same quantity of necessaries as before, and no more. Now if the capital employed were so large as to yield a hundred thousand times 720*l.* or 72,000,000*l.*, the aggregate of profits would be 48,000,000*l.* when wheat was at 4*l.* per quarter; and if by employing a larger capital, 105,000 times 720*l.* were obtained when wheat was at 6*l.*, or 75,600,000*l.*, profits would actually fall from 48,000,000*l.* to 44,100,000*l.* or 105,000 times 420*l.*, and wages would rise from 24,000,000*l.* to 31,500,000*l.* Wages would rise because more labourers would be employed, in propor-

tion to capital; and each labourer would receive more money wages; but the condition of the labourer, as we have already shown, would be worse, inasmuch as he would be able to command a less quantity of the produce of the country. The only real gainers would be the landlords; they would receive higher rents, first, because produce would be of a higher value, and secondly, because they would have a greatly increased proportion of that produce.

Although a greater value is produced, a greater proportion of what remains of that value, after paying rent, is consumed by the producers, and it is this, and this alone, which regulates profits. Whilst the land yields abundantly, wages may temporarily rise, and the producers may consume more than their accustomed proportion; but the stimulus which will thus be given to population, will speedily reduce the labourers to their usual consumption. But when poor lands are taken into cultivation, or when more capital and labour are expended on the old land, with a less return of produce, the effect must be permanent. A greater proportion of that part of the produce which remains to be divided, after paying rent, between the owners of stock and the labourers, will be apportioned to the latter. Each man may, and probably will, have a less absolute quantity; but as more labourers are employed in proportion to the whole produce retained by the farmer, the value of a greater proportion of the whole produce will be absorbed by wages, and consequently the value of a smaller proportion will be devoted to profits. This will necessarily be rendered permanent by the laws of nature, which have limited the productive powers of the land.

Thus we again arrive at the same conclusion which we have before attempted to establish:—that in all countries, and all times, profits depend on the quantity of labour requisite to provide necessaries for the labourers, on that land or with that capital which yields no rent. The effects then of accumulation will be different in different countries, and will depend chiefly on the fertility of the land. However extensive a country may be where the land is of a poor quality, and where the importation of food is prohibited, the most moderate accumulations of capital will be attended with great reductions in the rate of profit, and a rapid rise in rent; and on the contrary a small but fertile country, particularly if it freely permits the importation of food, may accumulate a large stock of capital without any great diminution in the rate of profits, or any great increase in the rent of land. In the Chapter on Wages, we have endeavoured to show that the money price of commodities would not be raised by a rise of wages, either on the supposition that gold, the standard of money, was the produce of this country, or that it was imported from abroad. But if it were otherwise, if the prices of commodities were permanently raised by high wages, the proposition would not be less true, which asserts that high wages invariably affect the employers of labour, by depriving them of a portion of their real profits. Supposing the hatter, the hosier,

and the shoemaker, each paid 10*l.* more wages in the manufacture of a particular quantity of their commodities, and that the price of hats, stockings, and shoes, rose by a sum sufficient to repay the manufacturer the 10*l.*; their situation would be no better than if no such rise took place. If the hosier sold his stockings for 110*l.* instead of 100*l.*, his profits would be precisely the same money amount as before; but as he would obtain in exchange for this equal sum, one-tenth less of hats, shoes, and every other commodity, and as he could with his former amount of savings employ fewer labourers at the increased wages, and purchase fewer raw materials at the increased prices, he would be in no better situation than if his money profits had been really diminished in amount, and every thing had remained at its former price. Thus, then, I have endeavoured to show, first, that a rise of wages would not raise the price of commodities, but would invariably lower profits; and secondly, that if the prices of all commodities could be raised, still the effect on profits would be the same; and that, in fact, the value of the medium only in which prices and profits are estimated would be lowered.

## CHAPTER VII.

### ON FOREIGN TRADE.

No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments. As the value of all foreign goods is measured by the quantity of the produce of our land and labour, which is given in exchange for them, we should have no greater value, if by the discovery of new markets, we obtained double the quantity of foreign goods in exchange for a given quantity of ours. If by the purchase of English goods to the amount of 1000*l.*, a merchant can obtain a quantity of foreign goods, which he can sell in the English market for 1,200*l.*, he will obtain 20 per cent. profit by such an employment of his capital; but neither his gains, nor the value of the commodities imported, will be increased or diminished by the greater or smaller quantity of foreign goods obtained. Whether, for example, he imports twenty-five or fifty pipes of wine, his interest can be no way affected, if at one time the twenty-five pipes, and at another the fifty pipes, equally sell for 1,200*l.* In either case his profit will be limited to 200*l.*, or 20 per cent. on his capital; and in either case the same value will be imported into England. If the fifty pipes sold for more than 1,200*l.*, the profits of this individual merchant would exceed the general rate of profits, and capital would naturally flow into this advantageous trade, till the fall of the price of wine had brought every thing to the former level.

It has indeed been contended, that the great profits which are sometimes made by particular merchants in foreign trade, will elevate the general rate of profits in the country, and that the abstraction of capital from other employments, to partake of the new and beneficial foreign commerce, will raise prices generally, and thereby increase profits. It has been said, by high authority, that less capital being necessarily devoted to the growth of corn, to the manufacture of cloth, hats, shoes, &c., while the demand continues the same, the price of these commodities will be so increased, that the farmer, hatter, clothier, and shoemaker, will have an increase of profits, as well as the foreign merchant.*

* See Adam Smith, book i. chap. 9.

They who hold this argument agree with me, that the profits of different employments have a tendency to conform to one another; to advance and recede together. Our variance consists in this: They contend that the equality of profits will be brought about by the general rise of profits; and I am of opinion, that the profits of the favoured trade will speedily subside to the general level.

For, first, I deny that less capital will necessarily be devoted to the growth of corn, to the manufacture of cloth, hats, shoes, &c., unless the demand for these commodities be diminished; and if so, their price will not rise. In the purchase of foreign commodities, either the same, a larger, or a less portion of the produce of the land and labour of England will be employed. If the same portion be so employed, then will the same demand exist for cloth, shoes, corn, and hats as before, and the same portion of capital will be devoted to their production. If, in consequence of the price of foreign commodities being cheaper, a less portion of the annual produce of the land and labour of England is employed in the purchase of foreign commodities, more will remain for the purchase of other things. If there be a greater demand for hats, shoes, corn, &c., than before, which there may be, the consumers of foreign commodities having an additional portion of their revenue disposable, the capital is also disposable with which the greater value of foreign commodities was before purchased; so that with the increased demand for corn, shoes, &c., there exists also the means of procuring an increased supply, and therefore neither prices nor profits can permanently rise. If more of the produce of the land and labour of England be employed in the purchase of foreign commodities, less can be employed in the purchase of other things, and therefore fewer hats, shoes, &c. will be required. At the same time that capital is liberated from the production of shoes, hats, &c., more must be employed in manufacturing those commodities with which foreign commodities are purchased; and, consequently, in all cases the demand for foreign and home commodities together, as far as regards value, is limited by the revenue and capital of the country. If one increases the other must diminish. If the quantity of wine, imported in exchange for the same quantity of English commodities, be doubled, the people of England can either consume double the quantity of wine that they did before, or the same quantity of wine and a greater quantity of English commodities. If my revenue had been 1000*l.*, with which I purchased annually one pipe of wine for 100*l.*, and a certain quantity of English commodities for 900*l.*; when wine fell to 50*l.* per pipe, I might lay out the 50*l.* saved, either in the purchase of an additional pipe of wine, or in the purchase of more English commodities. If I bought more wine, and every wine-drinker did the same, the foreign trade would not be in the least disturbed; the same quantity of English commodities would be exported in exchange for wine, and we should receive double the quantity, though not double the value of wine.

But if I, and others, contented ourselves with the same quantity of wine as before, fewer English commodities would be exported, and the wine-drinkers might either consume the commodities which were before exported, or any others for which they had an inclination. The capital required for their production would be supplied by the capital liberated from the foreign trade.

There are two ways in which capital may be accumulated; it may be saved either in consequence of increased revenue, or of diminished consumption. If my profits are raised from 1000*l.* to 1,200*l.*, while my expenditure continues the same, I accumulate annually 200*l.* more than I did before. If I save 200*l.* out of my expenditure, while my profits continue the same, the same effect will be produced; 200*l.* per annum will be added to my capital. The merchant who imported wine after profits had been raised from 20 per cent. to 40 per cent., instead of purchasing his English goods for 1000*l.*, must purchase them for 857*l.* 2s. 10d., still selling the wine which he imports in return for those goods for 1,200*l.*; or, if he continued to purchase his English goods for 1000*l.*, must raise the price of his wine to 1,400*l.*; he would thus obtain 40 instead of 20 per cent. profit on his capital; but if, in consequence of the cheapness of all the commodities on which his revenue was expended, he and all other consumers could save the value of 200*l.* out of every 1000*l.* they before expended, they would more effectually add to the real wealth of the country; in one case, the savings would be made in consequence of an increase of revenue, in the other, in consequence of diminished expenditure.

If, by the introduction of machinery, the generality of the commodities on which revenue was expended fell 20 per cent. in value, I should be enabled to save as effectually as if my revenue had been raised 20 per cent.; but in one case the rate of profits is stationary, in the other it is raised 20 per cent.—If, by the introduction of cheap foreign goods, I can save 20 per cent. from my expenditure, the effect will be precisely the same as if machinery had lowered the expense of their production, but profits would not be raised.

It is not, therefore, in consequence of the extension of the market that the rate of profit is raised, although such extension may be equally efficacious in increasing the mass of commodities, and may thereby enable us to augment the funds destined for the maintenance of labour, and the materials on which labour may be employed. It is quite as important to the happiness of mankind, that our enjoyments should be increased by the better distribution of labour, by each country producing those commodities for which by its situation, its climate, and its other natural or artificial advantages, it is adapted, and by their exchanging them for the commodities of other countries, as that they should be augmented by a rise in the rate of profits.

It has been my endeavour to show throughout this work, that

the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market, at a reduced price, profits will rise. If, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise; but if the commodities obtained at a cheaper rate, by the extension of foreign commerce, or by the improvement of machinery, be exclusively the commodities consumed by the rich, no alteration will take place in the rate of profits. The rate of wages would not be affected, although wine, velvets, silks, and other expensive commodities should fall 50 per cent., and consequently profits would continue unaltered.

Foreign trade, then, though highly beneficial to a country, as it increases the amount and variety of the objects on which revenue may be expended, and affords, by the abundance and cheapness of commodities, incentives to saving, and to the accumulation of capital, has no tendency to raise the profits of stock, unless the commodities imported be of that description on which the wages of labour are expended.

The remarks which have been made respecting foreign trade, apply equally to home trade. The rate of profits is never increased by a better distribution of labour, by the invention of machinery, by the establishment of roads and canals, or by any means of abridging labour either in the manufacture or in the conveyance of goods. These are causes which operate on price, and never fail to be highly beneficial to consumers; since they enable them, with the same labour, or with the value of the produce of the same labour, to obtain in exchange a greater quantity of the commodity to which the improvement is applied; but they have no effect, whatever on profit. On the other hand, every diminution in the wages of labour raises profits, but produces no effect on the price of commodities. One is advantageous to all classes, for all classes are consumers; the other is beneficial only to producers; they gain more, but every thing remains at its former price. In the first case they get the same as before; but every thing on which their gains are expended, is diminished in exchangeable value.

The same rule which regulates the relative value of commodities in one country, does not regulate the relative value of the commodities exchanged between two or more countries.

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most

efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

In one and the same country, profits are, generally speaking, always on the same level; or differ only as the employment of capital may be more or less secure and agreeable. It is not so between different countries. If the profits of capital employed in Yorkshire, should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England, from the increase of capital and population, wages should rise, and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain, or Russia, where profits might be higher.

If Portugal had no commercial connexion with other countries, instead of employing a great part of her capital and industry in the production of wines, with which she purchases for her own use the cloth and hardware of other countries, she would be obliged to devote a part of that capital to the manufacture of those commodities, which she would thus obtain probably inferior in quality as well as quantity.

The quantity of wine which she shall give in exchange for the cloth of England, is not determined by the respective quantities of labour devoted to the production of each, as it would be, if both commodities were manufactured in England, or both in Portugal.

England may be so circumstanced, that to produce the cloth may require the labour of 100 men for one year; and if she attempted to make the wine, it might require the labour of 120 men for the same time. England would therefore find it her interest to import wine, and to purchase it by the exportation of cloth.

To produce the wine in Portugal, might require only the labour of 80 men for one year, and to produce the cloth in the same country, might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place, notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England. Though she could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous to her rather to employ her

capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth.

Thus England would give the produce of the labour of 100 men, for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.*

It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose. In that case, the relative value of these commodities would be regulated by the same principle, as if one were the produce of Yorkshire, and the other of London: and in every other case, if capital freely flowed towards those countries where it could be most profitably employed, there could be no difference in the rate of profit, and no other difference in the real or labour price of commodities, than the additional quantity of labour required to convey them to the various markets where they were to be sold.

Experience, however, shows, that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself, with all his habits fixed, to a strange government and new laws, check the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.

Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed

* It will appear, then, that a country possessing very considerable advantages in machinery and skill, and which may therefore be enabled to manufacture commodities with much less labour than her neighbours, may, in return for such commodities, import a portion of the corn required for its consumption, even if its land were more fertile, and corn could be grown with less labour than in the country from which it was imported. Two men can both make shoes and hats, and one is superior to the other in both employments; but in making hats, he can only exceed his competitor by one-fifth or 20 per cent., and in making shoes he can excel him by one-third or 33 per cent.;—will it not be for the interest of both, that the superior man should employ himself exclusively in making shoes, and the inferior man in making hats?

in such proportions amongst the different countries of the world, as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter.

Thus, cloth cannot be imported into Portugal, unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot be imported into England, unless it will sell for more there than it cost in Portugal. If the trade were purely a trade of barter, it could only continue whilst England could make cloth so cheap as to obtain a greater quantity of wine with a given quantity of labour, by manufacturing cloth than by growing vines; and also whilst the industry of Portugal were attended by the reverse effects. Now suppose England to discover a process for making wine, so that it should become her interest rather to grow it than import it; she would naturally divert a portion of her capital from the foreign trade to the home trade; she would cease to manufacture cloth for exportation, and would grow wine for herself. The money price of these commodities would be regulated accordingly; wine would fall here while cloth continued at its former price, and in Portugal no alteration would take place in the price of either commodity. Cloth would continue for some time to be exported from this country, because its price would continue to be higher in Portugal than here; but money instead of wine would be given in exchange for it, till the accumulation of money here, and its diminution abroad, should so operate on the relative value of cloth in the two countries, that it would cease to be profitable to export it. If the improvement in making wine were of a very important description, it might become profitable for the two countries to exchange employments; for England to make all the wine, and Portugal all the cloth consumed by them; but this could be effected only by a new distribution of the precious metals, which should raise the price of cloth in England, and lower it in Portugal. The relative price of wine would fall in England in consequence of the real advantage from the improvement of its manufacture; that is to say, its natural price would fall; the relative price of cloth would rise there from the accumulation of money.

Thus, suppose before the improvement in making wine in England, the price of wine here were 50*l.* per pipe, and the price of a certain quantity of cloth were 45*l.*, whilst in Portugal the price of the same quantity of wine was 45*l.*, and that of the same quantity of cloth 50*l.*; wine would be exported from Portugal with a profit of 5*l.*, and cloth from England with a profit of the same amount.

Suppose that, after the improvement, wine falls to 45*l.* in England, the cloth continuing at the same price. Every transaction in commerce is an independent transaction. Whilst a merchant can buy cloth in England for 45*l.*, and sell it with the usual profit in Portugal, he will continue to export it from England. His business is simply to purchase English cloth, and to pay for it by a bill of

exchange, which he purchases with Portuguese money. It is to him of no importance what becomes of this money: he has discharged his debt by the remittance of the bill. His transaction is undoubtedly regulated by the terms on which he can obtain this bill, but they are known to him at the time; and the causes which may influence the market price of bills, or the rate of exchange, is no consideration of his.

If the markets be favourable for the exportation of wine from Portugal to England, the exporter of the wine will be a seller of a bill, which will be purchased either by the importer of the cloth, or by the person who sold him his bill; and thus, without the necessity of money passing from either country, the exporters in each country will be paid for their goods. Without having any direct transaction with each other, the money paid in Portugal by the importer of cloth will be paid to the Portuguese exporter of wine; and in England by the negotiation of the same bill, the exporter of the cloth will be authorised to receive its value from the importer of wine.

But if the prices of wine were such that no wine could be exported to England, the importer of cloth would equally purchase a bill; but the price of that bill would be higher, from the knowledge which the seller of it would possess, that there was no counter bill in the market by which he could ultimately settle the transactions between the two countries; he might know that the gold or silver money which he received in exchange for his bill, must be actually exported to his correspondent in England, to enable him to pay the demand which he had authorised to be made upon him, and he might therefore charge in the price of his bill all the expenses to be incurred, together with his fair and usual profit.

If then this premium for a bill on England should be equal to the profit on importing cloth, the importation would of course cease; but if the premium on the bill were only 2 per cent., if to be enabled to pay a debt in England of 100*l.*, 102*l.* should be paid in Portugal, whilst cloth which cost 45*l.* would sell for 50*l.*, cloth would be imported, bills would be bought, and money would be exported, till the diminution of money in Portugal, and its accumulation in England, had produced such a state of prices as would make it no longer profitable to continue these transactions.

But the diminution of money in one country, and its increase in another, do not operate on the price of one commodity only, but on the prices of all, and therefore the price of wine and cloth will be both raised in England, and both lowered in Portugal. The price of cloth, from being 45*l.* in one country and 50*l.* in the other, would probably fall to 49*l.* or 48*l.* in Portugal, and rise to 46*l.* or 47*l.* in England, and not afford a sufficient profit after paying a premium for a bill to induce any merchant to import that commodity.

It is thus that the money of each country is apportioned to it in

such quantities only as may be necessary to regul te a profitable trade of barter. England exported cloth in exchange for wine, because, by so doing, her industry was rendered more productive to her; she had more cloth and wine than if she had manufactured both for herself; and Portugal imported cloth and exported wine, because the industry of Portugal could be more beneficially employed for both countries in producing wine. Let there be more difficulty in England in producing cloth, or in Portugal in producing wine, or let there be more facility in England in producing wine, or in Portugal in producing cloth, and the trade must immediately cease.

No change whatever takes place in the circumstances of Portugal; but England finds that she can employ her labour more productively in the manufacture of wine, and instantly the trade of barter between the two countries changes. Not only is the exportation of wine from Portugal stopped, but a new distribution of the precious metals takes place, and her importation of cloth is also prevented.

Both countries would probably find it their interest to make their own wine and their own cloth; but this singular result would take place: in England, though wine would be cheaper, cloth would be elevated in price, more would be paid for it by the consumer; while in Portugal the consumers, both of cloth and of wine, would be able to purchase those commodities cheaper. In the country where the improvement was made, prices would be enhanced; in that where no change had taken place, but where they had been deprived of a profitable branch of foreign trade, prices would fall.

This, however, is only a seeming advantage to Portugal, for the quantity of cloth and wine together produced in that country would be diminished, while the quantity produced in England would be increased. Money would in some degree have changed its value in the two countries; it would be lowered in England and raised in Portugal. Estimated in money, the whole revenue of Portugal would be diminished; estimated in the same medium, the whole revenue of England would be increased.

Thus, then, it appears that the improvement of a manufacture in any country tends to alter the distribution of the precious metals amongst the nations of the world: it tends to increase the quantity of commodities, at the same time that it raises general prices in the country where the improvement takes place.

To simplify the question, I have been supposing the trade between two countries to be confined to two commodities—to wine and cloth; but it is well known that many and various articles enter into the list of exports and imports. By the abstraction of money from one country, and the accumulation of it in another, all commodities are affected in price, and consequently encouragement is given to the exportation of many more commo

dities besides money, which will therefore prevent so great an effect from taking place on the value of money in the two countries as might otherwise be expected.

Beside the improvements in arts and machinery, there are various other causes which are constantly operating on the natural course of trade, and which interfere with the equilibrium, and the relative value of money. Bounties on exportation or importation, new taxes on commodities, sometimes by their direct, and at other times by their indirect operation, disturb the natural trade of barter, and produce a consequent necessity of importing or exporting money, in order that prices may be accommodated to the natural course of commerce; and this effect is produced not only in the country where the disturbing cause takes place, but, in a greater or less degree, in every country of the commercial world.

This will in some measure account for the different value of money in different countries; it will explain to us why the prices of home commodities, and those of great bulk, though of comparatively small value, are, independently of other causes, higher in those countries where manufactures flourish. Of two countries having precisely the same population, and the same quantity of land of equal fertility in cultivation, with the same knowledge too of agriculture, the prices of raw produce will be highest in that where the greater skill, and the better machinery is used in the manufacture of exportable commodities. The rate of profits will probably differ but little; for wages, or the real reward of the labourer, may be the same in both; but those wages, as well as raw produce, will be rated higher in money in that country, into which, from the advantages attending their skill and machinery, an abundance of money is imported in exchange for their goods.

Of these two countries, if one had the advantage in the manufacture of goods of one quality, and the other in the manufacture of goods of another quality, there would be no decided influx of the precious metals into either; but if the advantage very heavily preponderated in favour of either, that effect would be inevitable.

In the former part of this work, we have assumed, for the purpose of argument, that money always continued of the same value; we are now endeavouring to show that, besides the ordinary variations in the value of money, and those which are common to the whole commercial world, there are also partial variations to which money is subject in particular countries; and to the fact, that the value of money is never the same in any two countries, depending as it does on relative taxation, on manufacturing skill, on the advantages of climate, natural productions, and many other causes.

Although, however, money is subject to such perpetual variations, and consequently the prices of the commodities which are common to most countries, are also subject to considerable difference, yet no effect will be produced on the rate of profits, either from the influx or efflux of money. Capital will not be increased, because the cir-

culating medium is augmented. If the rent paid by the farmer to his landlord, and the wages to his labourers, be 20 per cent. higher in one country than another, and if at the same time the nominal value of the farmer's capital be 20 per cent. more, he will receive precisely the same rate of profits, although he should sell his raw produce 20 per cent. higher.

Profits, it cannot be too often repeated, depend on wages; not on nominal, but real wages; not on the number of pounds that may be annually paid to the labourer, but on the number of days' work necessary to obtain those pounds. Wages may therefore be precisely the same in two countries; they may bear, too, the same proportion to rent, and to the whole produce obtained from the land, although in one of those countries the labourer should receive ten shillings per week, and in the other twelve.

In the early states of society, when manufactures have made little progress, and the produce of all countries is nearly similar, consisting of the bulky and most useful commodities, the value of money in different countries will be chiefly regulated by their distance from the mines which supply the precious metals; but as the arts and improvements of society advance, and different nations excel in particular manufactures, although distance will still enter into the calculation, the value of the precious metals will be chiefly regulated by the superiority of those manufactures.

Suppose all nations to produce corn, cattle, and coarse clothing only, and that it was by the exportation of such commodities that gold could be obtained from the countries which produced them, or from those who held them in subjection; gold would naturally be of greater exchangeable value in Poland than in England, on account of the greater expense of sending such a bulky commodity as corn the more distant voyage, and also the greater expense attending the conveying of gold to Poland.

This difference in the value of gold, or, which is the same thing, this difference in the price of corn in the two countries, would exist, although the facilities of producing corn in England should far exceed those of Poland, from the greater fertility of the land, and the superiority in the skill and implements of the labourer.

If, however, Poland should be the first to improve her manufactures, if she should succeed in making a commodity which was generally desirable, including great value in little bulk, or if she should be exclusively blessed with some natural production, generally desirable, and not possessed by other countries, she would obtain an additional quantity of gold in exchange for this commodity, which would operate on the price of her corn, cattle, and coarse clothing. The disadvantage of distance would probably be more than compensated by the advantage of having an exportable commodity of great value, and money would be permanently of lower value in Poland than in England. If, on the contrary, the advantage of skill and machinery were possessed by England,

another reason would be added to that which before existed, why gold should be less valuable in England than in Poland, and why corn, cattle, and clothing, should be at a higher price in the former country.

These I believe to be the only two causes which regulate the comparative value of money in the different countries of the world; for although taxation occasions a disturbance of the equilibrium of money, it does so by depriving the country in which it is imposed of some of the advantages attending skill, industry, and climate.

It has been my endeavour carefully to distinguish between a low value of money, and a high value of corn, or any other commodity with which money may be compared. These have been generally considered as meaning the same thing; but it is evident, that when corn rises from five to ten shillings a bushel, it may be owing either to a fall in the value of money, or to a rise in the value of corn. Thus we have seen, that from the necessity of having recourse successively to land of a worse and worse quality, in order to feed an increasing population, corn must rise in relative value to other things. If therefore money continue permanently of the same value, corn will exchange for more of such money, that is to say, it will rise in price. The same rise in the price of corn will be produced by such improvement of machinery in manufactures, as shall enable us to manufacture commodities with peculiar advantages: for the influx of money will be the consequence; it will fall in value, and therefore exchange for less corn. But the effects resulting from a high price of corn when produced by the rise in the value of corn, and when caused by a fall in the value of money, are totally different. In both cases the money price of wages will rise, but if it be in consequence of the fall in the value of money, not only wages and corn, but all other commodities will rise. If the manufacturer has more to pay for wages, he will receive more for his manufactured goods, and the rate of profits will remain unaffected. But when the rise in the price of corn is the effect of the difficulty of production, profits will fall; for the manufacturer will be obliged to pay more wages, and will not be enabled to remunerate himself by raising the price of his manufactured commodity.

Any improvement in the facility of working the mines, by which the precious metals may be produced with a less quantity of labour, will sink the value of money generally. It will then exchange for fewer commodities in all countries; but when any particular country excels in manufactures, so as to occasion an influx of money towards it, the value of money will be lower, and the prices of corn and labour will be relatively higher in that country than in any other.

This higher value of money will not be indicated by the exchange; bills may continue to be negotiated at par, although the prices of corn and labour should be 10, 20, or 30 per cent. higher in one country than another. Under the circumstances supposed, such a difference of prices is the natural order of things, and the

exchange can only be at par, when a sufficient quantity of money is introduced into the country excelling in manufactures, so as to raise the price of its corn and labour. If foreign countries should prohibit the exportation of money, and could successfully enforce obedience to such a law, they might indeed prevent the rise in the prices of the corn and labour of the manufacturing country; for such rise can only take place after the influx of the precious metals, supposing paper money not to be used; but they could not prevent the exchange from being very unfavourable to them. If England were the manufacturing country, and it were possible to prevent the importation of money, the exchange with France, Holland, and Spain, might be 5, 10, or 20 per cent. against those countries.

Whenever the current of money is forcibly stopped, and when money is prevented from settling at its just level, there are no limits to the possible variations of the exchange. The effects are similar to those which follow, when a paper money, not exchangeable for specie at the will of the holder, is forced into circulation. Such a currency is necessarily confined to the country where it is issued: it cannot, when too abundant, diffuse itself generally amongst other countries. The level of circulation is destroyed, and the exchange will inevitably be unfavourable to the country where it is excessive in quantity: just so would be the effects of a metallic circulation, if by forcible means, by laws which could not be evaded, money should be detained in a country, when the stream of trade gave it an impetus towards other countries.

When each country has precisely the quantity of money which it ought to have, money will not indeed be of the same value in each, for with respect to many commodities it may differ 5, 10, or even 20 per cent., but the exchange will be at par. One hundred pounds in England, or the silver which is in 100*l.*, will purchase a bill of 100*l.*, or an equal quantity of silver in France, Spain, or Holland.

In speaking of the exchange and the comparative value of money in different countries, we must not in the least refer to the value of money estimated in commodities, in either country. The exchange is never ascertained by estimating the comparative value of money in corn, cloth, or any commodity whatever, but by estimating the value of the currency of one country, in the currency of another.

It may also be ascertained by comparing it with some standard common to both countries. If a bill on England for 100*l.* will purchase the same quantity of goods in France or Spain, that a bill on Hamburgh for the same sum will do, the exchange between Hamburgh and England is at par; but if a bill on England for 130*l.* will purchase no more than a bill on Hamburgh for 100*l.*, the exchange is 30 per cent. against England.

In England 100*l.* may purchase a bill, or the right of receiving 101*l.* in Holland, 102*l.* in France, and 105*l.* in Spain. The exchange with England is, in that case, said to be 1 per cent. against

Holland, 2 per cent. against France, and 5 per cent. against Spain. It indicates that the level of currency is higher than it should be in those countries, and the comparative value of their currencies, and that of England, would be immediately restored to par, by extracting from theirs, or by adding to that of England.

Those who maintain that our currency was depreciated during the last ten years, when the exchange varied from 20 to 30 per cent. against this country, have never contended, as they have been accused of doing, that money could not be more valuable in one country than another, as compared with various commodities; but they did contend, that 130*l.* could not be detained in England, unless it was depreciated, when it was of no more value, estimated in the money of Hamburgh, or of Holland, than the bullion in 100*l.*

By sending 130 good English pounds sterling to Hamburgh, even at an expense of 5*l.*, I should be possessed there of 125*l.*; what then could make me consent to give 130*l.* for a bill which would give me 100*l.* in Hamburgh, but that my pounds were not good pounds sterling?—they were deteriorated, were degraded in intrinsic value below the pounds sterling of Hamburgh, and if actually sent there, at an expense of 5*l.*, would sell only for 100*l.* With metallic pounds sterling, it is not denied that my 130*l.* would procure me 125*l.* in Hamburgh, but with paper pounds sterling I can only obtain 100*l.*; and yet it was maintained that 130*l.* in paper, was of equal value with 130*l.* in silver or gold.

Some indeed more reasonably maintained, that 130*l.* in paper was not of equal value with 130*l.* in metallic money; but they said that it was the metallic money which had changed its value, and not the paper money. They wished to confine the meaning of the word depreciation to an actual fall of value, and not to a comparative difference between the value of money, and the standard by which by law it is regulated. One hundred pounds of English money was formerly of equal value with, and could purchase 100*l.* of Hamburgh money: in any other country a bill of 100*l.* on England, or on Hamburgh, could purchase precisely the same quantity of commodities. To obtain the same things, I was lately obliged to give 130*l.* English money, when Hamburgh could obtain them for 100*l.* Hamburgh money. If English money was of the same value then as before, Hamburgh money must have risen in value. But where is the proof of this? How is it to be ascertained whether English money has fallen, or Hamburgh money has risen? there is no standard by which this can be determined. It is a plea which admits of no proof, and can neither be positively affirmed, nor positively contradicted. The nations of the world must have been early convinced, that there was no standard of value in nature, to which they might unerringly refer, and therefore chose a medium, which on the whole appeared to them less variable than any other commodity.

To this standard we must conform till the law is changed, and

till some other commodity is discovered, by the use of which we shall obtain a more perfect standard than that which we have established. While gold is exclusively the standard in this country, money will be depreciated, when a pound sterling is not of equal value with 5 dwts. and 3 grs. of standard gold, and that, whether gold rises or falls in general value.

## CHAPTER VIII.

### ON TAXES.

Taxes are a portion of the produce of the land and labour of a country, placed at the disposal of the government; and are always ultimately paid, either from the capital, or from the revenue of the country.

We have already shown how the capital of a country is either fixed or circulating, according as it is of a more or of a less durable nature. It is difficult to define strictly, where the distinction between circulating and fixed capital begins; for there are almost infinite degrees in the durability of capital. The food of a country is consumed and reproduced at least once in every year; the clothing of the labourer is probably not consumed and reproduced in less than two years; whilst his house and furniture are calculated to endure for a period of ten or twenty years.

When the annual productions of a country more than replace its annual consumption, it is said to increase its capital; when its annual consumption is not at least replaced by its annual production, it is said to diminish its capital. Capital may therefore be increased by an increased production, or by a diminished unproductive consumption.

If the consumption of the government, when increased by the levy of additional taxes, be met either by an increased production, or by a diminished consumption on the part of the people, the taxes will fall upon revenue, and the national capital will remain unimpaired; but if there be no increased production or diminished unproductive consumption on the part of the people, the taxes will necessarily fall on capital, that is to say, they will impair the fund allotted to productive consumption.*

In proportion as the capital of a country is diminished, its productions will be necessarily diminished; and, therefore, if the same

* It must be understood that all the productions of a country are consumed; but it makes the greatest difference imaginable whether they are consumed by those who reproduce, or by those who do not reproduce another value. When we say that revenue is saved, and added to capital, what we mean is, that the portion of revenue, so said to be added to capital, is consumed by productive instead of unproductive labourers. There can be no greater error than in supposing that capital is increased by non-consumption. If the price of labour should rise so high, that notwithstanding the increase of capital, no more could be employed, I should say that such increase of capital would be still unproductively consumed.

unproductive expenditure on the part of the people and of the government continue, with a constantly diminishing annual reproduction, the resources of the people and the state will fall away with increasing rapidity, and distress and ruin will follow.

Notwithstanding the immense expenditure of the English government during the last twenty years, there can be little doubt but that the increased production on the part of the people has more than compensated for it. The national capital has not merely been unimpaired, it has been greatly increased, and the annual revenue of the people, even after the payment of their taxes, is probably greater at the present time than at any former period of our history.

For the proof of this, we might refer to the increase of population —to the extension of agriculture—to the increase of shipping and manufactures—to the building of docks—to the opening of numerous canals, as well as to many other expensive undertakings; all denoting an increase both of capital and of annual production.

Still, however, it is certain, that but for taxation, this increase of capital would have been much greater. There are no taxes which have not a tendency to lessen the power to accumulate. All taxes must either fall on capital or revenue. If they encroach on capital, they must proportionably diminish that fund by whose extent the extent of the productive industry of the country must always be regulated; and if they fall on revenue, they must either lessen accumulation, or force the contributors to save the amount of the tax, by making a corresponding diminution of their former unproductive consumption of the necessaries and luxuries of life. Some taxes will produce these effects in a much greater degree than others; but the great evil of taxation is to be found, not so much in any selection of its objects, as in the general amount of its effects taken collectively.

Taxes are not necessarily taxes on capital, because they are laid on capital; nor on income, because they are laid on income. If from my income of 1000*l.* per annum, I am required to pay 100*l.*, it will really be a tax on my income, should I be content with the expenditure of the remaining 900*l.*; but it will be a tax on capital, if I continue to spend 1000*l.*

The capital from which my income of 1000*l.* is derived, may be of the value of 10,000*l.*; a tax of one per cent. on such capital would be 100*l.*; but my capital would be unaffected, if, after paying this tax, I in like manner contented myself with the expenditure of 900*l.*

The desire which every man has to keep his station in life, and to maintain his wealth at the height which it has once attained, occasions most taxes, whether laid on capital or on income, to be paid from income; and, therefore, as taxation proceeds, or as government increases its expenditure, the annual enjoyments of the people must be diminished, unless they are enabled proportionally to increase their capitals and income. It should be the policy of

governments to encourage a disposition to do this in the people, and never to lay such taxes as will inevitably fall on capital; since, by so doing, they impair the funds for the maintenance of labour, and thereby diminish the future production of the country.

In England this policy has been neglected, in taxing the probates of wills, in the legacy duty, and in all taxes affecting the transference of property from the dead to the living. If a legacy of 1000*l.* be subject to a tax of 100*l.*, the legatee considers his legacy as only 900*l.* and feels no particular motive to save the 100*l.* duty from his expenditure, and thus the capital of the country is diminished; but if he had really received 1000*l.*, and had been required to pay 100*l.* as a tax on income, on wine, on horses, or on servants, he would probably have diminished, or rather not increased his expenditure by that sum, and the capital of the country would have been unimpaired.

"Taxes upon the transference of property from the dead to the living," says Adam Smith, "fall finally, as well as immediately, upon the persons to whom the property is transferred. Taxes on the sale of land fall altogether upon the seller. The seller is almost always under the necessity of selling, and must, therefore, take such a price as he can get. The buyer is scarce ever under the necessity of buying, and will, therefore, only give such a price as he likes. He considers what the land will cost him in tax and price together. The more he is obliged to pay in the way of tax, the less he will be disposed to give in the way of price. Such taxes, therefore, fall almost always upon a necessitous person, and must, therefore, be very cruel and oppressive." "Stamp duties, and duties upon the registration of bonds and contracts for borrowed money, fall altogether upon the borrower, and in fact are always paid by him. Duties of the same kind upon law proceedings fall upon the suitors. They reduce to both the capital value of the subject in dispute. The more it costs to acquire any property, the less must be the neat value of it when acquired. All taxes upon the transference of property of every kind, so far as they diminish the capital value of that property, tend to diminish the funds destined for the maintenance of labour. They are all more or less unthrifty taxes, that increase the revenue of the sovereign, which seldom maintains any but unproductive labourers, at the expense of the capital of the people, which maintains none but productive."

But this is not the only objection to taxes on the transference of property; they prevent the national capital from being distributed in the way most beneficial to the community. For the general prosperity, there cannot be too much facility given to the conveyance and exchange of all kinds of property, as it is by such means that capital of every species is likely to find its way into the hands of those who will best employ it in increasing the productions of the country. "Why," asks M. Say, "does an individual wish to sell his land? it is because he has another employment in view in

which his funds will be more productive. Why does another wish to purchase this same land? it is to employ a capital which brings him in too little, which was unemployed, or the use of which he thinks susceptible of improvement. This exchange will increase the general income, since it increases the income of these parties. But if the charges are so exorbitant as to prevent the exchange, they are an obstacle to this increase of the general income." Those taxes, however, are easily collected; and this by many may be thought to afford some compensation for their injurious effects.

## CHAPTER IX.

### TAXES ON RAW PRODUCE.

HAVING in a former part of this work established, I hope satisfactorily, the principle, that the price of corn is regulated by the cost of its production on that land exclusively, or rather with that capital exclusively, which pays no rent, it will follow that whatever may increase the cost of production will increase the price; whatever may reduce it will lower the price. The necessity of cultivating poorer land, or of obtaining a less return with a given additional capital on land already in cultivation, will inevitably raise the exchangeable value of raw produce. The discovery of machinery, which will enable the cultivator to obtain his corn at a less cost of production, will necessarily lower its exchangeable value. Any tax which may be imposed on the cultivator, whether in the shape of land-tax, tithes, or a tax on the produce when obtained, will increase the cost of production, and will therefore raise the price of raw produce.

If the price of raw produce did not rise so as to compensate the cultivator for the tax, he would naturally quit a trade where his profits were reduced below the general level of profits; this would occasion a diminution of supply, until the unabated demand should have produced such a rise in the price of raw produce, as to make the cultivation of it equally profitable with the investment of capital in any other trade.

A rise of price is the only means by which he could pay the tax, and continue to derive the usual and general profits from this employment of his capital. He could not deduct the tax from his rent, and oblige his landlord to pay it, for he pays no rent. He would not deduct it from his profits, for there is no reason why he should continue in an employment which yields small profits, when all other employments are yielding greater. There can then be no question, but that he will have the power of raising the price of raw produce by a sum equal to the tax.

A tax on raw produce would not be paid by the landlord; it would not be paid by the farmer; but it would be paid, in an increased price, by the consumer.

Rent, it should be remembered, is the difference between the produce obtained by equal portions of labour and capital employed

on land of the same or different qualities. It should be remembered, too. that the money rent of land, and the corn rent of land, do not vary in the same proportion.

In the case of a tax on raw produce, of a land-tax, or tithes, the corn rent of land will vary, while the money rent will remain as before.

If, as we have before supposed, the land in cultivation were of three qualities, and that with an equal amount of capital,

180 qrs. of corn were obtained from land No. 1.
170 . . . . . from . . . . . 2.
160 . . . . . from . . . . . 3.

the rent of No. 1 would be 20 quarters, the difference between that of No. 3 and No. 1; and of No. 2, 10 quarters, the difference between that of No. 3 and No. 2; while No. 3 would pay no rent whatever.

Now, if the price of corn were 4*l.* per quarter, the money rent of No. 1 would be 80*l.*, and that of No. 2, 40*l.*

Suppose a tax of 8s. per quarter to be imposed on corn; then the price would rise to 4*l.* 8s.; and if the landlords obtained the same corn rent as before, the rent of No. 1 would be 88*l.* and that of No. 2, 44*l.* But they would not obtain the same corn rent; the tax would fall heavier on No. 1 than on No. 2, and on No. 2 than on No. 3, because it would be levied on a greater quantity of corn. It is the difficulty of production on No. 3 which regulates price; and corn rises to 4*l.* 8s., that the profits of the capital employed on No. 3 may be on a level with the general profits of stock.

The produce and tax on the three qualities of land will be as follows:

| | | | |
|---|---|---|---|
| No. 1, yielding | 180 | qrs at 4*l.* 8s. per qr. . . . | L.792 |
| Deduct the value of | 16.3 | or 8s. per qr. on 180 qrs. . . | 72 |
| Net corn produce | 163.7 | Net money produce | L.720 |
| No. 2, yielding | 170 | qrs. at 4*l.* 8s. per qr. . . . | L.748 |
| Deduct the value of | 15.4 | qrs. at 4*l.* 8s. or 8s. per qr. on 170 qrs. . . . . | 68 |
| Net corn produce | 154.6 | Net money produce | L.680 |
| No. 3, yielding | 160 | qrs. at 4*l.* 8s. . . . . | L.704 |
| Deduct the value of | 14.5 | qrs. at 4*l.* 8s. or 8s. per qr. on 160 . . . . . | 64 |
| Net corn produce | 145.5 | Net money produce | L.640 |

The money rent of No. 1 would continue to be 80*l.*, or the difference between 640*l.* and 720*l.*; and that of No. 2, 40*l.*, or the difference between 640*l.* and 680*l.*, precisely the same as before; but the corn rent will be reduced from 20 quarters on No. 1, to 18.2 quarters, the

difference between 145.5 and 163.7 quarters, and that on No. 2 from 10 to 9.1 quarters, the difference between 145.5 and 154.6 quarters.

A tax on corn, then, would fall on the consumers of corn, and would raise its value, as compared with all other commodities, in a degree proportioned to the tax. In proportion as raw produce entered into the composition of other commodities, would their value also be raised, unless the tax were countervailed by other causes. They would in fact be indirectly taxed, and their value would rise in proportion to the tax.

A tax, however, on raw produce, and on the necessaries of the labourer, would have another effect—it would raise wages. From the effect of the principle of population on the increase of mankind, wages of the lowest kind never continue much above that rate which nature and habit demand for the support of the labourers. This class is never able to bear any considerable proportion of taxation; and, consequently, if they had to pay 8s. per quarter in addition for wheat, and in some smaller proportion for other necessaries, they would not be able to subsist on the same wages as before, and to keep up the race of labourers. Wages would inevitably and necessarily rise; and, in proportion as they rose, profits would fall. Government would receive a tax of 8s. per quarter on all the corn consumed in the country, a part of which would be paid directly by the consumers of corn; the other part would be paid indirectly by those who employed labour, and would affect profits in the same manner as if wages had been raised from the increased demand for labour compared with the supply, or from an increasing difficulty of obtaining the food and necessaries required by the labourer.

In as far as the tax might affect consumers, it would be an equal tax, but in as far as it would affect profits, it would be a partial tax; for it would neither operate on the landlord nor on the stockholder, since they would continue to receive, the one the same money rent, the other the same money dividends as before. A tax on the produce of the land then would operate as follows:—

1st, It would raise the price of raw produce by a sum equal to the tax, and would therefore fall on each consumer in proportion to his consumption.

2dly, It would raise the wages of labour, and lower profits.

It may then be objected against such a tax,

1st, That by raising the wages of labour, and lowering profits, it is an unequal tax, as affects the income of the farmer, trader, and manufacturer, and leaves untaxed the income of the landlord, stockholder, and others enjoying fixed incomes.

2dly, That there would be a considerable interval between the rise in the price of corn and the rise of wages, during which much distress would be experienced by the labourer.

3dly, That raising wages and lowering profits is a discouragement to accumulation, and acts in the same way as a natural poverty of soil.

4thly, That by raising the price of raw produce, the prices of all commodities into which raw produce enters, would be raised, and that therefore we should not meet the foreign manufacturer on equal terms in the general market.

With respect to the first objection, that by raising the wages of labour and lowering profits, it acts unequally, as it affects the income of the farmer, trader, and manufacturer, and leaves untaxed the income of the landlord, stockholder, and others enjoying fixed incomes,—it may be answered, that if the operation of the tax be unequal it is for the legislature to make it equal, by taxing directly the rent of land, and the dividends from stock. By so doing, all the objects of an income tax would be obtained, without the inconvenience of having recourse to the obnoxious measure of prying into every man's concerns, and arming commissioners with powers repugnant to the habits and feelings of a free country.

With respect to the second objection, that there would be a considerable interval between the rise of the price of corn and the rise of wages, during which much distress would be experienced by the lower classes,—I answer, that under different circumstances, wages follow the price of raw produce with very different degrees of celerity; that in some cases no effect whatever is produced on wages by a rise of corn; in others, the rise of wages precedes the rise in the price of corn; again, in some the effect on wages is slow, and in others rapid.

Those who maintain that it is the price of necessaries which regulates the price of labour, always allowing for the particular state of progression in which the society may be, seem to have conceded too readily, that a rise or fall in the price of necessaries will be very slowly succeeded by a rise or fall of wages. A high price of provisions may arise from very different causes, and may accordingly produce very different effects. It may arise from

1st, A deficient supply.

2d, From a gradually increasing demand, which may be ultimately attended with an increased cost of production.

3dly, From a fall in the value of money.

4thly, From taxes on necessaries.

These four causes have not been sufficiently distinguished and separated by those who have inquired into the influence of a high price of necessaries on wages. We will examine them severally.

A bad harvest will produce a high price of provisions, and the high price is the only means by which the consumption is compelled to conform to the state of the supply. If all the purchasers of corn

were rich, the price might rise to any degree, but the result would remain unaltered; the price would at last be so high, that the least rich would be obliged to forego the use of a part of the quantity which they usually consumed, as by diminished consumption alone the demand could be brought down to the limits of the supply. Under such circumstances no policy can be more absurd, than that of forcibly regulating money wages by the price of food, as is frequently done, by misapplication of the poor laws. Such a measure affords no real relief to the labourer, because its effect is to raise still higher the price of corn, and at last he must be obliged to limit his consumption in proportion to the limited supply. In the natural course of affairs a deficient supply from bad seasons, without any pernicious and unwise interference, would not be followed by a rise of wages. The raising of wages is merely nominal to those who receive them; it increases the competition in the corn market, and its ultimate effect is to raise the profits of the growers and dealers in corn. The wages of labour are really regulated by the proportion between the supply and demand of necessaries, and the supply and demand of labour; and money is merely the medium, or measure, in which wages are expressed. In this case, then, the distress of the labourer is unavoidable, and no legislation can afford a remedy, except by the importation of additional food, or by adopting the most useful substitutes.

When a high price of corn is the effect of an increasing demand, it is always preceded by an increase of wages, for demand cannot increase, without an increase of means in the people to pay for that which they desire. An accumulation of capital naturally produces an increased competition among the employers of labour, and a consequent rise in its price. The increased wages are not always immediately expended on food, but are first made to contribute to the other enjoyments of the labourer. His improved condition, however, induces, and enables him to marry, and then the demand for food for the support of his family naturally supersedes that of those other enjoyments on which his wages were temporarily expended. Corn rises, then, because the demand for it increases, because there are those in the society who have improved means of paying for it; and the profits of the farmer will be raised above the general level of profits, till the requisite quantity of capital has been employed on its production. Whether, after this has taken place, corn shall again fall to its former price, or shall continue permanently higher, will depend on the quality of the land from which the increased quantity of corn has been supplied. If it be obtained from land of the same fertility as that which was last in cultivation, and with no greater cost of labour, the price will fall to its former state; if from poorer land, it will continue permanently higher. The high wages in the first instance proceeded from an increase in the demand for labour: inasmuch as it encouraged marriage, and supported children, it produced the effect of increasing the supply of labour.

But when the supply is obtained, wages will again fall to their former price, if corn has fallen to its former price: to a higher than the former price, if the increased supply of corn has been produced from land of an inferior quality. A high price is by no means incompatible with an abundant supply: the price is permanently high, not because the quantity is deficient, but because there has been an increased cost in producing it. It generally happens, indeed, that when a stimulus has been given to population, an effect is produced beyond what the case requires; the population may be, and generally is, so much increased as, notwithstanding the increased demand for labour, to bear a greater proportion to the funds for maintaining labourers than before the increase of capital. In this case a reaction will take place, wages will be below their natural level, and will continue so, till the usual proportion between the supply and demand has been restored. In this case, then, the rise in the price of corn is preceded by a rise of wages, and therefore entails no distress on the labourer.

A fall in the value of money, in consequence of an influx of the precious metals from the mines, or from the abuse of the privileges of banking, is another cause for the rise of the price of food; but it will make no alteration in the quantity produced. It leaves undisturbed too the number of labourers, as well as the demand for them; for there will be neither an increase nor a diminution of capital. The quantity of necessaries to be allotted to the labourer, depends on the comparative demand and supply of necessaries, with the comparative demand and supply of labour; money being only the medium in which the quantity is expressed; and as neither of these is altered, the real reward of the labourer will not alter. Money wages will rise, but they will only enable him to furnish himself with the same quantity of necessaries as before. Those who dispute this principle, are bound to show why an increase of money should not have the same effect in raising the price of labour, the quantity of which has not been increased, as they acknowledge it would have on the price of shoes, of hats, and of corn, if the quantity of those commodities were not increased. The relative market value of hats and shoes is regulated by the demand and supply of hats, compared with the demand and supply of shoes, and money is but the medium in which their value is expressed. If shoes be doubled in price, hats will also be doubled in price, and they will retain the same comparative value. So if corn and all the necessaries of the labourer be doubled in price, labour will be doubled in price also; and while there is no interruption to the usual demand and supply of necessaries and of labour, there can be no reason why they should not preserve their relative value.

Neither a fall in the value of money, nor a tax on raw produce, though each will raise the price, will *necessarily* interfere with the quantity of raw produce, or with the number of people, who are both able to purchase, and willing to consume it. It is very

easy to perceive why, when the capital of a country increases irregularly, wages should rise, whilst the price of corn remains stationary, or rises in a less proportion; and why, when the capital of a country diminishes, wages should fall whilst corn remains stationary, or falls in a much less proportion, and this too for a considerable time; the reason is, because labour is a commodity which cannot be increased and diminished at pleasure. If there are too few hats in the market for the demand, the price will rise, but only for a short time; for in the course of one year, by employing more capital in that trade, any reasonable addition may be made to the quantity of hats, and therefore their market price cannot long very much exceed their natural price; but it is not so with men; you cannot increase their number in one or two years when there is an increase of capital, nor can you rapidly diminish their number when capital is in a retrograde state; and, therefore, the number of hands increasing or diminishing slowly, whilst the funds for the maintenance of labour increase or diminish rapidly, there must be a considerable interval before the price of labour is exactly regulated by the price of corn and necessaries; but in the case of a fall in the value of money, or of a tax on corn, there is not necessarily any excess in the supply of labour, nor any abatement of demand, and therefore there can be no reason why the labourer should sustain a real diminution of wages.

A tax on corn does not necessarily diminish the quantity of corn, it only raises its money price; it does not necessarily diminish the demand compared with the supply of labour; why then should it diminish the portion paid to the labourer? Suppose it true that it did diminish the quantity given to the labourer, in other words, that it did not raise his money wages in the same proportion as the tax raised the price of the corn which he consumed; would not the supply of corn exceed the demand?—would it not fall in price? and would not the labourer thus obtain his usual portion? In such case, indeed, capital would be withdrawn from agriculture; for if the price were not increased by the whole amount of the tax, agricultural profits would be lower than the general level of profits, and capital would seek a more advantageous employment. In regard, then, to a tax on raw produce, which is the point under discussion, it appears to me that no interval which could bear oppressively on the labourer, would elapse between the rise in the price of raw produce, and the rise in the wages of the labourer; and that therefore no other inconvenience would be suffered by this class, than that which they would suffer from any other mode of taxation, namely, the risk that the tax might infringe on the funds destined for the maintenance of labour, and might therefore check or abate the demand for it.

With respect to the third objection against taxes on raw produce, namely, that the raising wages, and lowering profits, is a discouragement to accumulation, and acts in the same way as a natural

poverty of soil; I have endeavoured to show in another part of this work that savings may be as effectually made from expenditure as from production; from a reduction in the value of commodities, as from a rise in the rate of profits. By increasing my profits from 1000*l.* to 1,200*l.*, whilst prices continue the same, my power of increasing my capital by savings is increased, but it is not increased so much as it would be if my profits continued as before, whilst commodities were so lowered in price, that 800*l.* would procure me as much as 1000*l.* purchased before.

Now the sum required by the tax must be raised, and the question simply is, whether the same amount shall be taken from individuals by diminishing their profits, or by raising the prices of the commodities on which their profits will be expended.

Taxation under every form presents but a choice of evils; if it do not act on profit, or other sources of income, it must act on expenditure; and provided the burthen be equally borne, and do not repress reproduction, it is indifferent on which it is laid. Taxes on production, or on the profits of stock, whether applied immediately to profits, or indirectly, by taxing the land or its produce, have this advantage over other taxes; that, provided all other income be taxed, no class of the community can escape them, and each contributes according to his means.

From taxes on expenditure a miser may escape; he may have an income of 10,000*l.* per annum, and expend only 300*l.*; but from taxes on profits, whether direct or indirect, he cannot escape; he will contribute to them either by giving up a part, or the value of a part of his produce; or by the advanced prices of the necessaries essential to production, he will be unable to continue to accumulate at the same rate. He may, indeed, have an income of the same value, but he will not have the same command of labour, nor of an equal quantity of materials on which such labour can be exercised.

If a country is insulated from all others, having no commerce with any of its neighbours, it can in no way shift any portion of its taxes from itself. A portion of the produce of its land and labour will be devoted to the service of the State; and I cannot but think that, unless it presses unequally on that class which accumulates and saves, it will be of little importance whether the taxes be levied on profits, on agricultural, or on manufactured commodities. If my revenue be 1000*l.* per annum, and I must pay taxes to the amount of 100*l.*, it is of little importance whether I pay it from my revenue, leaving myself only 900*l.*, or pay 100*l.* in addition for my agricultural commodities, or for my manufactured goods. If 100*l.* is my fair proportion of the expenses of the country, the virtue of taxation consists in making sure that I shall pay that 100*l.*, neither more nor less; and that cannot be effected in any manner so securely as by taxes on wages, profits, or raw produce.

The fourth and last objection which remains to be noticed is: That by raising the price of raw produce, the prices of all commo-

dities into which raw produce enters will be raised, and that, therefore, we shall not meet the foreign manufacturer on equal terms in the general market.

In the first place, corn and *all* home commodities could not be materially raised in price without an influx of the precious metals; for the same quantity of money could not circulate the same quantity of commodities at high as at low prices, and the precious metals never could be purchased with dear commodities. When more gold is required, it must be obtained by giving more, and not fewer commodities in exchange for it. Neither could the want of money be supplied by paper, for it is not paper that regulates the value of gold as a commodity, but gold that regulates the value of paper. Unless, then, the value of gold could be lowered, no paper could be added to the circulation without being depreciated. And that the value of gold could not be lowered, appears clear, when we consider that the value of gold as a commodity must be regulated by the quantity of goods which must be given to foreigners in exchange for it. When gold is cheap, commodities are dear; and when gold is dear, commodities are cheap, and fall in price. Now as no cause is shown why foreigners should sell their gold cheaper than usual, it does not appear probable that there would be any influx of gold. Without such an influx there can be no increase of quantity, no fall in its value, no rise in the general price of goods.*

The probable effect of a tax on raw produce, would be to raise the price of raw produce, and of all commodities in which raw produce entered, but not in any degree proportioned to the tax; while other commodities in which no raw produce entered, such as articles made of the metals and the earths, would fall in price: so that the same quantity of money as before would be adequate to the whole circulation.

A tax which should have the effect of raising the price of all home productions, would not discourage exportation, except during a very limited time. If they were raised in price at home, they could not indeed immediately be profitably exported, because they would be subject to a burthen here from which abroad they were free. The tax would produce the same effect as an alteration in the value of money, which was not general and common to all countries, but confined to a single one. If England were that country, she might not be able to sell, but she would be able to buy, because importable commodities would not be raised in price. Under these circumstances nothing but money could be exported in return for foreign commodities, but this is a trade which could not long continue; a nation cannot be exhausted of its money, for after a certain quantity has left it, the value of the remainder will rise, and such a price of commodities will be the consequence, that

* It may be doubted whether commodities, raised in price, merely by taxation, would require any more money for their circulation. I believe they would not.

they will again be capable of being profitably exported. When money had risen, therefore, we should no longer export it in return for goods, but we should export those manufactures which had first been raised in price, by the rise in the price of the raw produce from which they were made, and then again lowered by the exportation of money.

But it may be objected, that when money so rose in value, it would rise with respect to foreign as well as home commodities, and therefore that all encouragement to import foreign goods would cease. Thus, suppose we imported goods which cost 100*l.* abroad, and which sold for 120*l.* here, we should cease to import them, when the value of money had so risen in England, that they would only sell for 100*l.* here: this, however, could never happen. The motive which determines us to import a commodity, is the discovery of its relative cheapness abroad: it is the comparison of its price abroad with its price at home. If a country export hats, and import cloth, it does so because it can obtain more cloth by making hats and exchanging them for cloth, than if it made the cloth itself. If the rise of raw produce occasions any increased cost of production in making hats, it would occasion also an increased cost in making cloth. If, therefore, both commodities were made at home, they would both rise. One, however, being a commodity which we import, would not rise, neither would it fall, when the value of money rose; for by not falling it would regain its natural relation to the exported commodity. The rise of raw produce makes a hat rise from 30 to 33 shillings, or 10 per cent.: the same cause, if we manufactured cloth, would make it rise from 20s. to 22s. per yard. This rise does not destroy the relation between cloth and hats: a hat was, and continues to be, worth one yard and a half of cloth. But if we import cloth, its price will continue uniformly at 20s. per yard, unaffected first by the fall, and then by the rise in the value of money; whilst hats, which had risen from 30s. to 33s., will again fall from 33s. to 30s., at which point the relation between cloth and hats will be restored.

To simplify the consideration of this subject, I have been supposing that a rise in the value of raw materials would affect, in an equal proportion, all home commodities; that if the effect on one were to raise it 10 per cent., it would raise all 10 per cent.; but as the value of commodities is very differently made up of raw material and labour; as some commodities, for instance, all those made from the metals, would be unaffected by the rise of raw produce from the surface of the earth, it is evident that there would be the greatest variety in the effects produced on the value of commodities, by a tax on raw produce. As far as this effect was produced, it would stimulate or retard the exportation of particular commodities, and would undoubtedly be attended with the same inconvenience that attends the taxing of commodities; it would destroy the natural relation between the value of each. Thus the natural

price of a hat, instead of being the same as a yard and a half of cloth, might only be of the value of a yard and a quarter, or it might be of the value of a yard and three quarters, and therefore rather a different direction might be given to foreign trade. All these inconveniences would probably not interfere with the value of the exports and imports; they would only prevent the very best distribution of the capital of the whole world, which is never so well regulated, as when every commodity is freely allowed to settle at its natural price, unfettered by artificial restraints.

Although, then, the rise in the price of most of our own commodities would for a time check exportation generally, and might permanently prevent the exportation of a few commodities, it could not materially interfere with foreign trade, and would not place us under any comparative disadvantage as far as regarded competition in foreign markets.

## CHAPTER X.

### TAXES ON RENT.

A TAX on rent would affect rent only; it would fall wholly on landlords, and could not be shifted to any class of consumers. The landlord could not raise his rent, because he would leave unaltered the difference between the produce obtained from the least productive land in cultivation, and that obtained from land of every other quality. Three sorts of land, No. 1, 2, and 3, are in cultivation, and yield respectively, with the same labour, 180, 170, and 160 quarters of wheat; but No. 3 pays no rent, and is therefore untaxed: the rent then of No. 2 cannot be made to exceed the value of ten, nor No. 1 of twenty, quarters. Such a tax could not raise the price of raw produce, because, as the cultivator of No. 3 pays neither rent nor tax, he would in no way be enabled to raise the price of the commodity produced. A tax on rent would not discourage the cultivation of fresh land, for such land pays no rent, and would be untaxed. If No. 4 were taken into cultivation, and yielded 150 quarters, no tax would be paid for such land; but it would create a rent of ten quarters on No. 3, which would then commence paying the tax.

A tax on rent, as rent is constituted, would discourage cultivation, because it would be a tax on the profits of the landlord. The term rent of land, as I have elsewhere observed, is applied to the whole amount of the value paid by the farmer to his landlord, a part only of which is strictly rent. The buildings and fixtures, and other expenses paid for by the landlord, form strictly a part of the stock of the farm, and must have been furnished by the tenant, if not provided by the landlord. Rent is the sum paid to the landlord for the use of the land, and for the use of the land only. The further sum that is paid to him under the name of rent, is for the use of the buildings, &c., and is really the profits of the landlord's stock. In taxing rent, as no distinction would be made between that part paid for the use of the land, and that paid for the use of the landlord's stock, a portion of the tax would fall on the landlord's profits, and would, therefore, discourage cultivation, unless the price of raw produce rose. On that land, for the use of which no rent was paid, a compensation under that name might be given to the landlord for the use of his buildings. These buildings would not be erected, nor would raw produce be grown on such land, till

the price at which it sold would not only pay for all the usual outgoings, but also this additional one of the tax. This part of the tax does not fall on the landlord, nor on the farmer, but on the consumer of raw produce.

There can be little doubt but that if a tax were laid on rent, landlords would soon find a way to discriminate between that which is paid to them for the use of the land, and that which is paid for the use of the buildings, and the improvements which are made by the landlord's stock. The latter would either be called the rent of house and buildings, or on all new land taken into cultivation, such buildings would be erected, and improvements would be made by the tenant, and not by the landlord. The landlord's capital might indeed be really employed for that purpose; it might be nominally expended by the tenant, the landlord furnishing him with the means, either in the shape of a loan, or in the purchase of an annuity for the duration of the lease. Whether distinguished or not, there is a real difference between the nature of the compensations which the landlord receives for these different objects: and it is quite certain, that a tax on the real rent of land falls wholly on the landlord, but that a tax on that remuneration which the landlord receives for the use of his stock expended on the farm, falls, in a progressive country, on the consumer of raw produce. If a tax were laid on rent, and no means of separating the remuneration now paid by the tenant to the landlord under the name of rent, were adopted, the tax, as far as it regarded the rent on the buildings and other fixtures, would never fall for any length of time on the landlord, but on the consumer. The capital expended on these buildings, &c., must afford the usual profit of stock; but it would cease to afford this profit on the land last cultivated, if the expenses of those buildings, &c., did not fall on the tenant; and if they did, the tenant would then cease to make his usual profits of stock, unless he could charge them on the consumer.

## CHAPTER XI.

### TITHES.

TITHES are a tax on the gross produce of the land, and, like taxes on raw produce, fall wholly on the consumer. They differ from a tax on rent, inasmuch as they affect land which such a tax would not reach; and raise the price of raw produce, which that tax would not alter. Lands of the worst quality, as well as of the best, pay tithes, and exactly in proportion to the quantity of produce obtained from them; tithes are therefore an equal tax.

If land of the last quality, or that which pays no rent, and which regulates the price of corn, yield a sufficient quantity to give the farmer the usual profits of stock, when the price of wheat is 4*l.* per quarter, the price must rise to 4*l.* 8s. before the same profits can be obtained after the tithes are imposed, because for every quarter of wheat the cultivator must pay eight shillings to the church, and if he does not obtain the same profits, there is no reason why he should not quit his employment, when he can get them in other trades.

The only difference between tithes and taxes on raw produce is, that one is a variable money tax, the other a fixed money tax. In a stationary state of society, where there is neither increased nor diminished facility of producing corn, they will be precisely the same in their effects; for, in such a state, corn will be at an invariable price, and the tax will therefore be also invariable. In either a retrograde state, or in a state in which great improvements are made in agriculture, and where consequently raw produce will fall in value comparatively with other things, tithes will be a lighter tax than a permanent money tax; for if the price of corn should fall from 4*l.* to 3*l.*, the tax would fall from eight to six shillings. In a progressive state of society, yet without any marked improvements in agriculture, the price of corn would rise, and tithes would be a heavier tax than a permanent money tax. If corn rose from 4*l.* to 5*l.*, the tithes on the same land would advance from eight to ten shillings.

Neither tithes nor a money tax will affect the money rent of landlords, but both will materially affect corn rents. We have already observed how a money tax operates on corn rents, and it is equally evident that a similar effect would be produced by tithes. If the lands, No. 1, 2, 3, respectively produced 180, 170, and 160

quarters, the rents might be on No. 1, twenty quarters, and on No. 2, ten quarters; but they would no longer preserve that proportion after the payment of tithes: for if a tenth be taken from each, the remaining produce will be 162, 153, 144, and consequently the corn rent of No. 1 will be reduced to eighteen, and that of No. 2 to nine quarters. But the price of corn would rise from 4*l.* to 4*l.* 8s. $10\frac{2}{3}$d.; for 144 quarters are to 4*l.* as 160 quarters to 4*l.* 8s. $10\frac{2}{3}$d., and consequently the money rent would continue unaltered; for on No 1 it would be 80*l.*,* and on No. 2, 40*l.*†

The chief objection against tithes is, that they are not a permanent and fixed tax, but increase in value, in proportion as the difficulty of producing corn increases. If those difficulties should make the price of corn 4*l.*, the tax is 8s.; if they should increase it to 5*l.*, the tax is 10s.; and at 6*l.* it is 12s. They not only rise in value, but they increase in amount: thus, when No. 1 was cultivated, the tax was only levied on 180 quarters; when No. 2 was cultivated, it was levied on $180 + 170$, or 350 quarters; and when No. 3 was cultivated, on $180 + 170 + 160 = 510$ quarters. Not only is the amount of tax increased from 100,000 quarters to 200,000 quarters, when the produce is increased from one to two millions of quarters; but, owing to the increased labour necessary to produce the second million, the relative value of raw produce is so advanced, that the 200,000 quarters may be, though only twice in quantity, yet in value three times that of the 100,000 quarters which were paid before.

If an equal value were raised for the church by any other means, increasing in the same manner as tithes increase, proportionably with the difficulty of cultivation, the effect would be the same; and therefore it is a mistake to suppose that, because they are raised on the land, they discourage cultivation more than an equal amount would do if raised in any other manner. The church would in both cases be constantly obtaining an increased portion of the net produce of the land and labour of the country. In an improving state of society, the net produce of land is always diminishing in proportion to its gross produce; but it is from the net income of a country that all taxes are ultimately paid, either in a progressive or in a stationary country. A tax increasing with the gross income, and falling on the net income, must necessarily be a very burdensome, and a very intolerable tax. Tithes are a tenth of the gross, and not of the net produce of the land, and therefore as society improves in wealth, they must, though the same proportion of the gross produce, become a larger and larger proportion of the net produce.

Tithes, however, may be considered as injurious to landlords, inasmuch as they act as a bounty on importation, by taxing the growth of home corn, while the importation of foreign corn remains unfettered. And if, in order to relieve the landlords from the effects

* 18 Quarters at 4*l.* 8s. 10⅔d. † 9 Quarters at 4*l.* 8s. 10⅔d.

of the diminished demand for land, which such a bounty must encourage, imported corn were also taxed, in an equal degree with corn grown at home, and the produce paid to the State, no measure could be more fair and equitable; since whatever were paid to the State by this tax, would go to diminish the other taxes which the expenses of Government make necessary; but if such a tax were devoted only to increase the fund paid to the church, it might indeed on the whole increase the general mass of production, but it would diminish the portion of that mass allotted to the productive classes.

If the trade of cloth were left perfectly free, our manufacturers might be able to sell cloth cheaper than we could import it. If a tax were laid on the home manufacturer, and not on the importer of cloth, capital might be injuriously driven from the manufacture of cloth to the manufacture of some other commodity, as cloth might then be imported cheaper than it could be made at home. If imported, cloth should also be taxed, cloth would again be manufactured at home. The consumer first bought cloth at home, because it was cheaper than foreign cloth; he then bought foreign cloth, because it was cheaper untaxed than home cloth taxed: he lastly bought it again at home, because it was cheaper when both home and foreign cloth were taxed. It is in the last case that he pays the greatest price for his cloth; but all his additional payment is gained by the State. In the second case, he pays more than in the first, but all he pays in addition is not received by the State, it is an increased price caused by difficulty of production, which is incurred, because the easiest means of production are taken away from us, by being fettered with a tax.

## CHAPTER XII.

### LAND-TAX.

A LAND-TAX, levied in proportion to the rent of land, and varying with every variation of rent, is in effect a tax on rent; and as such a tax will not apply to that land which yields no rent, nor to the produce of that capital which is employed on the land with a view to profit merely, and which never pays rent; it will not in any way affect the price of raw produce, but will fall wholly on the landlords. In no respect would such a tax differ from a tax on rent. But if a land-tax be imposed on all cultivated land, however moderate that tax may be, it will be a tax on produce, and will therefore raise the price of produce. If No. 3 be the land last cultivated, although it should pay no rent, it cannot, after the tax, be cultivated, and afford the general rate of profit, unless the price of produce rise to meet the tax. Either capital will be withheld from that employment until the price of corn shall have risen, in consequence of demand, sufficiently to afford the usual profit; or if already employed on such land, it will quit it, to seek a more advantageous employment. The tax cannot be removed to the landlord, for by the supposition he receives no rent. Such a tax may be proportioned to the quality of the land and the abundance of its produce, and then it differs in no respect from tithes; or it may be a fixed tax per acre on all land cultivated, whatever its quality may be.

A land-tax of this latter description would be a very unequal tax, and would be contrary to one of the four maxims with regard to taxes in general, to which, according to Adam Smith, all taxes should conform. The four maxims are as follow:—

1. "The subjects of every state ought to contribute towards the support of the government, as nearly as possible in proportion to their respective abilities.
2. "The tax which each individual is bound to pay ought to be certain, and not arbitrary.
3. "Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it.

4. " Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the State."

An equal land-tax, imposed indiscriminately and without any regard to the distinction of its quality, on all land cultivated, will raise the price of corn in proportion to the tax paid by the cultivator of the land of the worst quality. Lands of different quality, with the employment of the same capital, will yield very different quantities of raw produce. If on the land which yields a thousand quarters of corn with a given capital, a tax of 100*l.* be laid, corn will rise 2s. per quarter to compensate the farmer for the tax. But with the same capital on land of a better quality, 2000 quarters may be produced, which at 2s. a quarter advance, would give 200*l.*; the tax, however, bearing equally on both lands, will be 100*l.* on the better as well as on the inferior, and consequently the consumer of corn will be taxed, not only to pay the exigencies of the State, but also to give to the cultivator of the better land 100*l.* per annum during the period of his lease, and afterwards to raise the rent of the landlord to that amount. A tax of this description, then, would be contrary to the fourth maxim of Adam Smith,—it would take out and keep out of the pockets of the people more than what it brought into the treasury of the State. The taille in France, before the Revolution, was a tax of this description; those lands only were taxed which were held by an ignoble tenure, the price of raw produce rose in proportion to the tax, and therefore they whose lands were not taxed were benefited by the increase of their rent. Taxes on raw produce, as well as tithes, are free from this objection: they raise the price of raw produce, but they take from each quality of land a contribution in proportion to its actual produce, and not in proportion to the produce of that which is the least productive.

From the peculiar view which Adam Smith took of rent, from his not having observed that much capital is expended in every country, on the land for which no rent is paid, he concluded that all taxes on the land, whether they were laid on the land itself in the form of land-tax or tithes, or on the produce of the land, or were taken from the profits of the farmer, were all invariably paid by the landlord, and that he was in all cases the real contributor, although the tax was, in general, nominally advanced by the tenant. "Taxes upon the produce of the land," he says, "are in reality taxes upon the rent; and though they may be originally advanced by the farmer, are finally paid by the landlord. When a certain portion of the produce is to be paid away for a tax, the farmer computes as well as he can, what the value of this portion is, one year with another, likely to amount to, and he makes a proportionable abatement in the rent which he agrees to pay to the landlord. There is no farmer who does not compute beforehand what the

church-tithe, which is a land-tax of this kind is, one year with another, likely to amount to." It is undoubtedly true, that the farmer does calculate his probable outgoings of all descriptions, when agreeing with his landlord for the rent of his farm; and if, for the tithe paid to the church, or for the tax on the produce of the land, he were not compensated by a rise in the relative value of the produce of his farm, he would naturally endeavour to deduct them from his rent. But this is precisely the question in dispute: whether he will eventually deduct them from his rent, or be compensated by a higher price of produce. For the reasons which have been already given, I cannot have the least doubt but that they would raise the price of produce, and consequently that Adam Smith has taken an incorrect view of this important question.

Dr Smith's view of this subject is probably the reason why he has described "the tithe, and every other land-tax of this kind, under the appearance of perfect equality, as very unequal taxes; a certain portion of the produce being in different situations, equivalent to a very different portion of the rent." I have endeavoured to show that such taxes do not fall with unequal weight on the different classes of farmers or landlords, as they are both compensated by the rise of raw produce, and only contribute to the tax in proportion as they are consumers of raw produce. Inasmuch indeed as wages, and through wages, the rate of profits are affected, landlords, instead of contributing their full share to such a tax, are the class peculiarly exempted. It is the profits of stock, from which that portion of the tax is derived which falls on those labourers, who, from the insufficiency of their funds, are incapable of paying taxes; this portion is exclusively borne by all those whose income is derived from the employment of stock, and therefore it in no degree affects landlords.

It is not to be inferred from this view of tithes, and taxes on the land and its produce, that they do not discourage cultivation. Every thing which raises the exchangeable value of commodities of any kind, which are in very general demand, tends to discourage both cultivation and production; but this is an evil inseparable from all taxation, and is not confined to the particular taxes of which we are now speaking.

This may be considered, indeed, as the unavoidable disadvantage attending all taxes received and expended by the State. Every new tax becomes a new charge on production, and raises natural price. A portion of the labour of the country which was before at the disposal of the contributor to the tax, is placed at the disposal of the State, and cannot therefore be employed productively. This portion may become so large, that sufficient surplus produce may not be left to stimulate the exertions of those who usually augment by their savings the capital of the State. Taxation has happily never yet in any free country been carried so far as constantly from year to year to diminish its capital. Such a state of taxation could

not be long endured; or if endured, it would be constantly absorbing so much of the annual produce of the country as to occasion the most extensive scene of misery, famine, and depopulation.

"A land-tax," says Adam Smith, "which, like that of Great Britain, is assessed upon each district according to a certain invariable canon, though it should be equal at the time of its first establishment, necessarily becomes unequal in process of time, according to the unequal degrees of improvement or neglect in the cultivation of the different parts of the country. In England the valuation according to which the different counties and parishes were assessed to the land-tax by the 4th, William and Mary, was very unequal, even at its first establishment. This tax, therefore, so far offends against the first of the four maxims above mentioned. It is perfectly agreeable to the other three. It is perfectly certain. The time of payment for the tax being the same as that for the rent, is as convenient as it can be to the contributor. Though the landlord is in all cases the real contributor, the tax is commonly advanced by the tenant, to whom the landlord is obliged to allow it in the payment of the rent."

If the tax be shifted by the tenant not on the landlord but on the consumer, then if it be not unequal at first, it can never become so; for the price of produce has been at once raised in proportion to the tax, and will afterwards vary no more on that account. It may offend, if unequal, as I have attempted to show that it will, against the fourth maxim above mentioned, but it will not offend against the first. It may take more out of the pockets of the people than it brings into the public treasury of the State, but it will not fall unequally on any particular class of contributors. M. Say appears to me to have mistaken the nature and effects of the English land-tax, when he says, "Many persons attribute to this fixed valuation, the great prosperity of English agriculture. That it has very much contributed to it there can be no doubt. But what should we say to a Government, which, addressing itself to a small trader, should hold this language: 'With a small capital you are carrying on a limited trade, and your direct contribution is in consequence very small. Borrow and accumulate capital; extend your trade, so that it may procure you immense profits; yet you shall never pay a greater contribution. Moreover, when your successors shall inherit your profits, and shall have further increased them, they shall not be valued higher to them than they are to you; and your successors shall not bear a greater portion of the public burdens.'

"Without doubt this would be a great encouragement given to manufactures and trade; but would it be just? Could not their advancement be obtained at any other price? In England itself, has not manufacturing and commercial industry made even greater progress, since the same period, without being distinguished with so much partiality? A landlord by his assiduity, economy, and skill, increases his annual revenue by 5000 francs. If the State claim of

him the fifth part of his augmented income, will there not remain 4000 francs of increase to stimulate his further exertions?"

M. Say supposes, "A landlord by his assiduity, economy, and skill, to increase his annual revenue by 5000 francs;" but a landlord has no means of employing his assiduity, economy, and skill on his land, unless he farms it himself; and then it is in quality of capitalist and farmer that he makes the improvement, and not in quality of landlord. It is not conceivable that he could so augment the produce of his farm by any *peculiar* skill on his part, without first increasing the quantity of capital employed upon it. If he increased the capital, his larger revenue might bear the same proportion to his increased capital, as the revenue of all other farmers to their capitals.

If M. Say's suggestion were followed, and the State were to claim the fifth part of the augmented income of the farmer, it would be a partial tax on farmers, acting on their profits, and not affecting the profits of those in other employments. The tax would be paid by all lands, by those which yielded scantily as well as by those which yielded abundantly; and on some lands there could be no compensation for it by deduction from rent, for no rent is paid. A partial tax on profits never falls on the trade on which it is laid, for the trader will either quit his employment, or remunerate himself for the tax. Now, those who pay no rent could be recompensed only by a rise in the price of produce, and thus would M. Say's proposed tax fall on the consumer, and not either on the landlord or farmer.

If the proposed tax were increased in proportion to the increased quantity or value of the gross produce obtained from the land, it would differ in nothing from tithes, and would equally be transferred to the consumer. Whether then it fell on the gross or on the net produce of land, it would be equally a tax on consumption, and would only affect the landlord and farmer in the same way as other taxes on raw produce.

If no tax whatever had been laid on the land, and the same sum had been raised by any other means, agriculture would have flourished at least as well as it has done; for it is impossible that any tax on land can be an *encouragement* to agriculture; a moderate tax may not, and probably does not, greatly prevent, but it cannot encourage production. The English Government has held no such language as M. Say has supposed. It did not promise to exempt the agricultural class and their successors from all future taxation, and to raise the further supplies which the State might require, from the other classes of society; it said only, "in this mode we will no further burthen the land; but we retain to ourselves the most perfect liberty of making you pay, under some other form, your full quota to the future exigencies of the State."

Speaking of taxes in kind, or a tax of a certain proportion of the produce, which is precisely the same as tithes, M. Say says, "This

mode of taxation appears to be the most equitable; there is, however, none which is less so: it totally leaves out of consideration the advances made by the producer; it is proportioned to the gross, and not to the net revenue. Two agriculturists cultivate different kinds of raw produce: one cultivates corn on middling land, his expenses amounting annually on an average to 8000 francs; the raw produce from his lands sells for 12,000 francs; he has then a net revenue of 4000 francs.

"His neighbour has pasture or wood land, which brings in every year a like sum of 12,000 francs, but his expenses amount only to 2000 francs. He has therefore on an average a net revenue of 10,000 francs.

"A law ordains that a twelfth of the produce of all the fruits of the earth be levied in kind, whatever they may be. From the first is taken, in consequence of this law, corn of the value of 1000 francs; and from the second, hay, cattle, or wood, of the same value of 1000 francs. What has happened? From the one, a quarter of his net income, 4000 francs, has been taken; from the other, whose income was 10,000 francs, a tenth only has been taken. Income is the net profit which remains after replacing the capital exactly in its former state. Has a merchant an income equal to all the sales which he makes in the course of a year? certainly not; his income only amounts to the excess of his sales above his advances, and it is on this excess only that taxes on income should fall."

M. Say's error in the above passage lies in supposing that because the value of the produce of one of these two farms, after reinstating the capital, is greater than the value of the produce of the other, on that account the net income of the cultivators will differ by the same amount. The net income of the landlords and tenants together of the wood land, may be much greater than the net income of the landlords and tenants of the corn land; but it is on account of the difference of rent, and not on account of the difference in the rate of profit. M. Say has wholly omitted the consideration of the different amount of rent, which these cultivators would have to pay. There cannot be two rates of profit in the same employment, and therefore when the value of produce is in different proportions to capital, it is the rent which will differ, and not the profit. Upon what pretence would one man, with a capital of 2000 francs, be allowed to obtain a net profit of 10,000 francs from its employment, whilst another, with a capital of 8000 francs, would only obtain 4000 francs? Let M. Say make a due allowance for rent; let him further allow for the effect which such a tax would have on the prices of these different kinds of raw produce, and he will then perceive that it is not an unequal tax, and, further, that the producers themselves will no otherwise contribute to it, than any other class of consumers.

## CHAPTER XIII.

### TAXES ON GOLD.

THE rise in the price of commodities, in consequence of taxation or of difficulty of production, will in all cases ultimately ensue; but the duration of the interval, before the market price will conform to the natural price, must depend on the nature of the commodity, and on the facility with which it can be reduced in quantity. If the quantity of the commodity taxed could not be diminished, if the capital of the farmer or of the hatter, for instance, could not be withdrawn to other employments, it would be of no consequence that their profits were reduced below the general level by means of a tax; unless the demand for their commodities should increase, they would never be able to elevate the market price of corn and of hats up to their increased natural price. Their threats to leave their employments, and remove their capitals to more favoured trades, would be treated as an idle menace which could not be carried into effect; and consequently the price would not be raised by diminished production. Commodities, however, of all descriptions, can be reduced in quantity, and capital can be removed from trades which are less profitable to those which are more so, but with different degrees of rapidity. In proportion as the supply of a particular commodity can be more easily reduced, without inconvenience to the producer, the price of it will more quickly rise after the difficulty of its production has been increased by taxation, or by any other means. Corn being a commodity indispensably necessary to every one, little effect will be produced on the demand for it in consequence of a tax, and therefore the supply would not probably be long excessive, even if the producers had great difficulty in removing their capitals from the land. For this reason, the price of corn will speedily be raised by taxation, and the farmer will be enabled to transfer the tax from himself to the consumer.

If the mines which supply us with gold were in this country, and if gold were taxed, it could not rise in relative value to other things, till its quantity were reduced. This would be more particularly the case, if gold were used exclusively for money. It is true that the least productive mines, those which paid no rent, could no longer be worked, as they could not afford the general rate of profits till the relative value of gold rose, by a sum equal to the tax. The

quantity of gold, and, therefore, the quantity of money would be slowly reduced: it would be a little diminished in one year, a little more in another, and finally its value would be raised in proportion to the tax; but, in the interval, the proprietors or holders, as they would pay the tax, would be the sufferers, and not those who used money. If out of every 1000 quarters of wheat in the country, and every 1000 produced in future, Government should exact 100 quarters as a tax, the remaining 900 quarters would exchange for the same quantity of other commodities that 1000 did before; but if the same thing took place with respect to gold, if of every 1000*l.* money now in the country, or in future to be brought into it, Government could exact 100*l.* as a tax, the remaining 900*l.* would purchase very little more than 900*l.* purchased before. The tax would fall upon him, whose property consisted of money, and would continue to do so till its quantity were reduced in proportion to the increased cost of its production caused by the tax.

This, perhaps, would be more particularly the case with respect to a metal used for money, than any other commodity; because the demand for money is not for a definite quantity, as is the demand for clothes, or for food. The demand for money is regulated entirely by its value, and its value by its quantity. If gold were of double the value, half the quantity would perform the same functions in circulation, and if it were of half the value, double the quantity would be required. If the market value of corn be increased one-tenth by taxation, or by difficulty of production, it is doubtful whether any effect whatever would be produced on the quantity consumed, because every man's want is for a definite quantity, and, therefore, if he has the means of purchasing, he will continue to consume as before: but for money, the demand is exactly proportioned to its value. No man could consume twice the quantity of corn which is usually necessary for his support, but every man purchasing and selling only the same quantity of goods, may be obliged to employ twice, thrice, or any number of times the same quantity of money.

The argument which I have just been using, applies only to those states of society in which the precious metals are used for money, and where paper credit is not established. The metal gold, like all other commodities, has its value in the market ultimately regulated by the comparative facility or difficulty of producing it; and although, from its durable nature, and from the difficulty of reducing its quantity, it does not readily bend to variations in its market value, yet that difficulty is much increased from the circumstance of its being used as money. If the quantity of gold in the market for the purpose of commerce only, were 10,000 ounces, and the consumption in our manufactures were 2000 ounces annually, it might be raised one-fourth, or 25 per cent. in its value, in one year, by withholding the annual supply; but if, in consequence of its being used as money, the quantity employed were 100,000 ounces,

it would not be raised one-fourth in value in less than ten years. As money made of paper may be readily reduced in quantity, its value, though its standard were gold, would be increased as rapidly as that of the metal itself would be increased, if the metal, by forming a very small part of the circulation, had a very slight connexion with money.

If gold were the produce of one country only, and it were used universally for money, a very considerable tax might be imposed on it, which would not fall on any country, except in proportion as they used it in manufactures, and for utensils; upon that portion which was used for money, though a large tax might be received, nobody would pay it. This is a quality peculiar to money. All other commodities of which there exists a limited quantity, and which cannot be increased by competition, are dependent for their value on the tastes, the caprice, and the power of purchasers; but money is a commodity which no country has any wish or necessity to increase: no more advantage results from using twenty millions, than from using ten millions of currency. A country might have a monopoly of silk, or of wine, and yet the prices of silks and wine might fall, because from caprice or fashion, or taste, cloth and brandy might be preferred, and substituted: the same effect might in a degree take place with gold, as far as its use is confined to manufactures: but while money is the general medium of exchange, the demand for it is never a matter of choice, but always of necessity: you must take it in exchange for your goods, and, therefore, there are no limits to the quantity which may be forced on you by foreign trade, if it fall in value; and no reduction to which you must not submit, if it rise. You may, indeed, substitute paper money, but by this you do not, and cannot lessen the quantity of money, for that is regulated by the value of the standard for which it is exchangeable; it is only by the rise of the price of commodities, that you can prevent them from being exported from a country where they are purchased with little money, to a country where they can be sold for more, and this rise can only be effected by an importation of metallic money from abroad, or by the creation or addition of paper money at home. If, then, the King of Spain, supposing him to be in exclusive possession of the mines, and gold alone to be used for money, were to lay a considerable tax on gold, he would very much raise its natural value; and as its market value in Europe is ultimately regulated by its natural value in Spanish America, more commodities would be given by Europe for a given quantity of gold. But the same quantity of gold would not be produced in America, as its value would only be increased in proportion to the diminution of quantity consequent on its increased cost of production. No more goods, then, would be obtained in America, in exchange for all their gold exported than before; and it may be asked, where then would be the benefit to Spain and her Colonies? The benefit would be this, that if less

gold were produced, less capital would be employed in producing it; the same value of goods from Europe would be imported by the employment of the smaller capital, that was before obtained by the employment of the larger; and, therefore, all the productions obtained by the employment of the capital withdrawn from the mines, would be a benefit which Spain would derive from the imposition of the tax, and which she could not obtain in such abundance, or with such certainty, by possessing the monopoly of any other commodity whatever. From such a tax, as far as money was concerned, the nations of Europe would suffer no injury whatever; they would have the same quantity of goods, and consequently the same means of enjoyment as before, but these goods would be circulated with a less quantity, because a more valuable money.

If in consequence of the tax, only one-tenth of the present quantity of gold were obtained from the mines, that tenth would be of equal value with the ten tenths now produced. But the King of Spain is not exclusively in possession of the mines of the precious metals; and if he were, his advantage from their possession, and the power of taxation, would be very much reduced by the limitation of demand and consumption in Europe, in consequence of the universal substitution, in a greater or less degree, of paper money. The agreement of the market and natural prices of all commodities, depends at all times on the facility with which the supply can be increased or diminished. In the case of gold, houses, and labour, as well as many other things, this effect cannot, under some circumstances, be speedily produced. But it is different with those commodities which are consumed and reproduced from year to year, such as hats, shoes, corn, and cloth; they may be reduced, if necessary, and the interval cannot be long before the supply is contracted in proportion to the increased charge of producing them.

A tax on raw produce from the surface of the earth, will, as we have seen, fall on the consumer, and will in no way affect rent; unless by diminishing the funds for the maintenance of labour, it lowers wages, reduces the population, and diminishes the demand for corn. But a tax on the produce of gold mines must, by enhancing the value of that metal, necessarily reduce the demand for it, and must therefore necessarily displace capital from the employment to which it was applied. Notwithstanding, then, that Spain would derive all the benefits which I have stated from a tax on gold, the proprietors of those mines from which capital was withdrawn would lose all their rent. This would be a loss to individuals, but not a national loss; rent being not a creation, but merely a transfer of wealth: the King of Spain, and the proprietors of the mines which continued to be worked, would together receive, not only all that the liberated capital produced, but all that the other proprietors lost.

Suppose the mines of the 1st, 2d, and 3d quality to be worked, and to produce respectively 100, 80, and 70 pounds' weight of gold, and therefore the rent of No. 1 to be thirty pounds, and that of No. 2 ten pounds. Suppose, now, the tax to be seventy pounds of gold per annum on each mine worked; and consequently that No. 1 alone could be profitably worked, it is evident that all rent would immediately disappear. Before the imposition of the tax, out of the 100 pounds produced on No. 1, a rent was paid of thirty pounds, and the worker of the mine retained seventy, a sum equal to the produce of the least productive mine. The value, then, of what remains to the capitalist of the mine No. 1, must be the same as before, or he would not obtain the common profits of stock; and, consequently, after paying seventy out of his 100 pounds for tax, the value of the remaining thirty must be as great as the value of seventy was before, and therefore the value of the whole hundred as great as 233 pounds before. Its value might be higher, but it could not be lower, or even this mine would cease to be worked. Being a monopolised commodity, it could exceed its natural value, and then it would pay a rent equal to that excess; but no funds would be employed in the mine, if it were below this value. In return for one-third of the labour and capital employed in the mines, Spain would obtain as much gold as would exchange for the same, or very nearly the same, quantity of commodities as before. She would be richer by the produce of the two-thirds liberated from the mines. If the value of the 100 pounds of gold should be equal to that of the 250 pounds extracted before, the King of Spain's portion, his seventy pounds would be equal to 175 at the former value: a small part of the King's tax only would fall on his own subjects, the greater part being obtained by the better distribution of capital.

The account of Spain would stand thus:—

FORMERLY PRODUCED.

| | |
|---|---|
| Gold, 250 pounds, of the value of (suppose) . . . | 10,000 yards of cloth. |

NOW PRODUCED.

| | |
|---|---|
| By the two capitalists who quitted the mines, the same value as 140 pounds of gold formerly exchanged for; equal to . | 5,600 yards of cloth. |
| By the capitalist who works the mine, No. 1, thirty pounds of gold, increased in value, as 1 to $2\frac{1}{3}$, and therefore now of the value of | 3,000 yards of cloth. |
| Tax to the king, seventy pounds, increased also in value as 1 to $2\frac{1}{3}$, and therefore now of the value of . . . . . | 7,000 yards of cloth. |
| | 15,600 |

Of the 7000 received by the king, the people of Spain would contribute only 1,400, and 5,600 would be pure gain, effected by the liberated capital.

If the tax, instead of being a fixed sum per mine worked, were a certain portion of its produce, the quantity would not be immediately reduced in consequence. If a half, a fourth, or a third of each mine were taken for the tax, it would nevertheless be the interest

of the proprietors to make their mines yield as abundantly as before; but if the quantity were not reduced, but only a part of it transferred from the proprietor to the king, its value would not rise; the tax would fall on the people of the colonies, and no advantage would be gained. A tax of this kind would have the effect that Adam Smith supposes taxes on raw produce would have on the rent of land—it would fall entirely on the rent of the mine. If pushed a little further, indeed, the tax would not only absorb the whole rent, but would deprive the worker of the mine of the common profits of stock, and he would consequently withdraw his capital from the production of gold. If still further extended, the rent of still better mines would be absorbed, and capital would be further withdrawn; and thus the quantity would be continually reduced, and its value raised, and the same effects would take place as we have already pointed out; a part of the tax would be paid by the people of the Spanish colonies, and the other part would be a new creation of produce, by increasing the power of the instrument used as a medium of exchange.

Taxes on gold are of two kinds, one on the actual quantity of gold in circulation, the other on the quantity that is annually produced from the mines. Both have a tendency to reduce the quantity, and to raise the value of gold; but by neither will its value be raised till the quantity is reduced, and therefore such taxes will fall for a time, until the supply is diminished, on the proprietors of money, but ultimately that part which will permanently fall on the community, will be paid by the owner of the mine in the reduction of rent, and by the purchasers of that portion of gold, which is used as a commodity contributing to the enjoyments of mankind, and not set apart exclusively for a circulating medium.

## CHAPTER XIV.

### TAXES ON HOUSES.

THERE are also other commodities besides gold which cannot be speedily reduced in quantity; any tax on which will therefore fall on the proprietor, if the increase of price should lessen the demand.

Taxes on houses are of this description; though laid on the occupier, they will frequently fall by a diminution of rent on the landlord. The produce of the land is consumed and reproduced from year to year, and so are many other commodities; as they may therefore be speedily brought to a level with the demand, they cannot long exceed their natural price. But as a tax on houses may be considered in the light of an additional rent paid by the tenant, its tendency will be to diminish the demand for houses of the same annual rent, without diminishing their supply. Rent will therefore fall, and a part of the tax that will be paid indirectly by the landlord.

"The rent of a house," says Adam Smith, "may be distinguished into two parts, of which the one may very properly be called the building rent, the other is commonly called the ground rent. The building rent is the interest or profit of the capital expended in building the house. In order to put the trade of a builder upon a level with other trades, it is necessary that this rent should be sufficient first to pay the same interest which he would have got for his capital, if he had lent it upon good security; and, secondly, to keep the house in constant repair, or, what comes to the same thing, to replace within a certain term of years the capital which had been employed in building it." "If, in proportion to the interest of money, the trade of the builder affords at any time a much greater profit than this, it will soon draw so much capital from other trades as will reduce the profit to its proper level. If it affords at any time much less than this, other trades will soon draw so much capital from it as will again raise that profit. Whatever part of the whole rent of a house is over and above what is sufficient for affording this reasonable profit, naturally goes to the ground rent; and where the owner of the ground, and the owner of the building, are two different persons, it is in most cases completely paid to the former. In country houses, at a distance from any great town where there is a plentiful choice of ground, the

ground rent is scarcely any thing, or no more than what the space upon which the house stands would pay employed in agriculture. In country villas, in the neighbourhood of some great town, it is sometimes a good deal higher, and the peculiar conveniency, or beauty of situation, is there frequently very highly paid for. Ground rents are generally highest in the capital, and in those particular parts of it where there happens to be the greatest demand for houses, whatever be the reason for that demand, whether for trade and business, for pleasure and society, or for mere vanity and fashion." A tax on the rent of houses may either fall on the occupier, on the ground landlord, or on the building landlord. In ordinary cases it may be presumed that the whole tax would be paid, both immediately and finally, by the occupier.

If the tax be moderate, and the circumstances of the country such, that it is either stationary or advancing, there would be little motive for the occupier of a house to content himself with one of a worse description. But if the tax be high, or any other circumstances should diminish the demand for houses, the landlord's income would fall, for the occupier would be partly compensated for the tax by a diminution of rent. It is, however, difficult to say in what proportions that part of the tax, which was saved by the occupier by a fall of rent, would fall on the building rent and the ground rent. It is probable that, in the first instance, both would be affected; but as houses are, though slowly, yet certainly perishable, and as no more would be built till the profits of the builder were restored to the general level, building rent would, after an interval, be restored to its natural price. As the builder receives rent only whilst the building endures, he could pay no part of the tax, under the most disastrous circumstances, for any longer period.

The payment of this tax, then, would ultimately fall on the occupier and ground landlord, but, "in what proportion this final payment would be divided between them," says Adam Smith, "it is not perhaps very easy to ascertain. The division would probably be very different in different circumstances, and a tax of this kind might, according to those different circumstances, affect very unequally both the inhabitant of the house, and the owner of the ground."*

Adam Smith considers ground rents as peculiarly fit subjects for taxation. "Both ground rents, and the ordinary rent of land," he says, "are a species of revenue, which the owner in many cases enjoys, without any care or attention of his own. Though a part of this revenue should be taken from him, in order to defray the expenses of the State, no discouragement will thereby be given to any sort of industry. The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground

* Book v. Chap. ii

rents, and the ordinary rent of land are, therefore, perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them." It must be admitted that the effects of these taxes would be such as Adam Smith has described; but it would surely be very unjust to tax exclusively the revenue of any particular class of a community. The burdens of the State should be borne by all in proportion to their means: this is one of the four maxims mentioned by Adam Smith, which should govern all taxation. Rent often belongs to those who, after many years of toil, have realised their gains, and expended their fortunes in the purchase of land or houses; and it certainly would be an infringement of that principle which should ever be held sacred, the security of property, to subject it to unequal taxation. It is to be lamented, that the duty by stamps, with which the transfer of landed property is loaded, materially impedes the conveyance of it into those hands, where it would probably be made most productive. And if it be considered, that land, regarded as a fit subject for exclusive taxation, would not only be reduced in price, to compensate for the risk of that taxation, but in proportion to the indefinite nature and uncertain value of the risk, would become a fit subject for speculations, partaking more of the nature of gambling, than of sober trade, it will appear probable, that the hands into which land would in that case be most apt to fall, would be the hands of those who possess more of the qualities of the gambler than of the qualities of the sober-minded proprietor, who is likely to employ his land to the greatest advantage.

## CHAPTER XV.

### TAXES ON PROFITS.

Taxes on those commodities, which are generally denominated luxuries, fall on those only who make use of them. A tax on wine is paid by the consumer of wine. A tax on pleasure horses, or on coaches, is paid by those who provide for themselves such enjoyments, and in exact proportion as they provide them. But taxes on necessaries do not affect the consumers of necessaries, in proportion to the quantity that may be consumed by them, but often in a much higher proportion. A tax on corn, we have observed, not only affects a manufacturer in the proportion that he and his family may consume corn, but it alters the rate of profits of stock, and therefore also affects his income. Whatever raises the wages of labour, lowers the profits of stock; therefore every tax on any commodity consumed by the labourer has a tendency to lower the rate of profits.

A tax on hats will raise the price of hats; a tax on shoes, the price of shoes; if this were not the case, the tax would be finally paid by the manufacturer; his profits would be reduced below the general level, and he would quit his trade. A partial tax on profits will raise the price of the commodity on which it falls: a tax, for example, on the profits of the hatter, would raise the price of hats; for if his profits were taxed, and not those of any other trade, his profits, unless he raised the price of his hats, would be below the general rate of profits, and he would quit his employment for another.

In the same manner, a tax on the profits of the farmer would raise the price of corn; a tax on the profits of the clothier, the price of cloth; and if a tax in proportion to profits were laid on all trades, every commodity would be raised in price. But if the mine which supplied us with the standard of our money were in this country, and the profits of the miner were also taxed, the price of no commodity would rise, each man would give an equal proportion of his income, and every thing would be as before.

If money be not taxed, and therefore be permitted to preserve its value, whilst every thing else is taxed, and is raised in value, the hatter, the farmer, and clothier, each employing the same capitals, and obtaining the same profits, will pay the same amount

of tax. If the tax be 100*l.*, the hats, the cloth, and the corn, will each be increased in value 100*l.* If the hatter gains by his hats 1,100*l.*, instead of 1000*l.*, he will pay 100*l.* to Government for the tax; and therefore will still have 1000*l.* to lay out on goods for his own consumption. But as the cloth, corn, and all other commodities, will be raised in price from the same cause, he will not obtain more for his 1000*l.* than he before obtained for 910*l.*, and thus will he contribute by his diminished expenditure to the exigencies of the State; he will, by the payment of the tax, have placed a portion of the produce of the land and labour of the country at the disposal of Government, instead of using that portion himself. If, instead of expending his 1000*l.*, he adds it to his capital, he will find in the rise of wages, and in the increased cost of the raw material and machinery, that his saving of 1000*l.* does not amount to more than a saving of 910*l.* amounted to before.

If money be taxed, or if by any other cause its value be altered, and all commodities remain precisely at the same price as before, the profits of the manufacturer and farmer will also be the same as before, they will continue to be 1000*l.*; and as they will each have to pay 100*l.* to Government, they will retain only 900*l.*, which will give them a less command over the produce of the land and labour of the country, whether they expend it in productive or unproductive labour. Precisely what they lose, Government will gain. In the first case, the contributor to the tax would, for 1000*l.*, have as great a quantity of goods as he before had for 910*l.*; in the second, he would have only as much as he before had for 900*l.*, for the price of goods would remain unaltered, and he would have only 900*l.* to expend. This proceeds from the difference in the amount of the tax; in the first case, it is only an eleventh of his income; in the second, it is a tenth; money in the two cases being of a different value.

But although, if money be not taxed, and do not alter in value, all commodities will rise in price, they will not rise in the same proportion; they will not after the tax bear the same relative value to each other which they did before the tax. In a former part of this work, we discussed the effects of the division of capital into fixed and circulating, or rather into durable and perishable capital, on the prices of commodities. We showed that two manufacturers might employ precisely the same amount of capital, and might derive from it precisely the same amount of profits, but that they would sell their commodities for very different sums of money, according as the capitals they employed were rapidly, or slowly, consumed and reproduced. The one might sell his goods for 4000*l.*, the other for 10,000*l.*, and they might both employ 10,000*l.* of capital, and obtain 20 per cent. profit, or 2000*l.* The capital of one might consist, for example, of 2000*l.* circulating capital, to be reproduced, and 8000*l.* fixed, in buildings and machinery; the capital

of the other, on the contrary, might consist of 8000*l.* of circulating, and of only 2000*l.* fixed capital in machinery and buildings. Now, if each of these persons were to be taxed 10 per cent. on his income, or 200*l.*, the one to make his business yield him the general rate of profit, must raise his goods from 10,000*l.* to 10,200*l.*; the other would also be obliged to raise the price of his goods from 4000*l.* to 4,200*l.* Before the tax, the goods sold by one of these manufacturers were $2\frac{1}{2}$ times more valuable than the goods of the other; after the tax they will be 2.42 times more valuable: the one kind will have risen two per cent.: the other five per cent.: consequently a tax upon income, whilst money continued unaltered in value, would alter the relative prices and value of commodities. This would be true also, if the tax, instead of being laid on the profits, were laid on the commodities themselves: provided they were taxed in proportion to the value of the capital employed on their production, they would rise equally, whatever might be their value, and therefore they would not preserve the same proportion as before. A commodity, which rose from ten to eleven thousand pounds, would not bear the same relation as before to another which rose from 2000*l.* to 3000*l.* If, under these circumstances, money rose in value, from whatever cause it might proceed, it would not affect the prices of commodities in the same proportion. The same cause which would lower the price of one from 10,200*l.* to 10,000*l.* or less than two per cent., would lower the price of the other from 4,200*l.* to 4000*l.* or $4\frac{3}{4}$ per cent. If they fell in any different proportion, profits would not be equal; for to make them equal, when the price of the first commodity was 10,000*l.*, the price of the second should be 4000*l.*; and when the price of the first was 10,200*l.*, the price of the other should be 4,200*l.*

The consideration of this fact will lead to the understanding of a very important principle, which, I believe, has never been adverted to. It is this; that in a country where no taxation subsists, the alteration in the value of money arising from scarcity or abundance will operate in an equal proportion on the prices of all commodities; that if a commodity of 1000*l.* value rise to 1,200*l.*, or fall to 800*l.*, a commodity of 10,000*l.* value will rise to 12,000*l.* or fall to 8000*l.*; but in a country where prices are artificially raised by taxation, the abundance of money from an influx, or the exportation and consequent scarcity of it from foreign demand, will not operate in the same proportion on the prices of all commodities; some it will raise or lower 5, 6, or 12 per cent., others 3, 4, or 7 per cent. If a country were not taxed, and money should fall in value, its abundance in every market would produce similar effects in each. If meat rose 20 per cent., bread, beer, shoes, labour, and every commodity, would also rise 20 per cent.; it is necessary they should do so, to secure to each trade the same rate of profits. But this is no longer true when any of these commodities is taxed; if, in that case, they should all rise in proportion to the fall in the value of money, profits

would be rendered unequal; in the case of the commodities taxed, profits would be raised above the general level, and capital would be removed from one employment to another, till an equilibrium of profits was restored, which could only be after the relative prices were altered.

Will not this principle account for the different effects, which it was remarked were produced on the prices of commodities, from the altered value of money during the Bank-restriction? It was objected to those who contended that the currency was at that period depreciated, from the too great abundance of the paper circulation, that, if that were the fact, all commodities ought to have risen in the same proportion; but it was found that many had varied considerably more than others, and thence it was inferred that the rise of prices was owing to something affecting the value of commodities, and not to any alteration in the value of the currency. It appears, however, as we have just seen, that in a country where commodities are taxed, they will not all vary in price in the same proportion, either in consequence of a rise or of a fall in the value of currency.

If the profits of all trades were taxed, excepting the profits of the farmer, all goods would rise in money value, excepting raw produce. The farmer would have the same corn income as before, and would sell his corn also for the same money price; but as he would be obliged to pay an additional price for all the commodities, except corn, which he consumed, it would be to him a tax on expenditure. Nor would he be relieved from this tax by an alteration in the value of money, for an alteration in the value of money might sink all the taxed commodities to their former price, but the untaxed one would sink below its former level; and, therefore, though the farmer would purchase his commodities at the same price as before, he would have less money with which to purchase them.

The landlord, too, would be precisely in the same situation; he would have the same corn, and the same money-rent as before, if all commodities rose in price, and money remained at the same value; and he would have the same corn, but a less money-rent, if all commodities remained at the same price: so that in either case, though his income were not directly taxed, he would indirectly contribute towards the money raised.

But suppose the profits of the farmer to be also taxed, he then would be in the same situation as other traders: his raw produce would rise, so that he would have the same money revenue, after paying the tax, but he would pay an additional price for all the commodities he consumed, raw produce included.

His landlord, however, would be differently situated; he would be benefited by the tax on his tenant's profits, as he would be compensated for the additional price at which he would purchase his manufactured commodities, if they rose in price; and he would have the same money revenue, if, in consequence of a rise in the value of

money, commodities sold at their former price. A tax on the profits of the farmer, is not a tax proportioned to the gross produce of the land, but to its net produce, after the payment of rent, wages, and all other charges. As the cultivators of the different kinds of land, Nos. 1, 2, and 3, employ precisely the same capitals, they will get precisely the same profits, whatever may be the quantity of gross produce which one may obtain more than the other; and consequently they will be all taxed alike. Suppose the gross produce of the land of the quality No. 1 to be 180 qrs., that of No. 2, 170 qrs., and of No. 3, 160, and each to be taxed 10 quarters, the difference between the produce of No. 1, No. 2, and No. 3, after paying the tax, will be the same as before; for if No. 1 be reduced to 170, No. 2 to 160, and No. 3 to 150 qrs., the difference between 3 and 1 will be as before, 20 qrs.; and of No. 3 and No. 2, 10 qrs. If, after the tax, the prices of corn and of every other commodity should remain the same as before, money-rent, as well as corn rent, would continue unaltered; but if the price of corn and every other commodity should rise in consequence of the tax, money rent will also rise in the same proportion. If the price of corn were 4*l.* per quarter, the rent of No. 1 would be 80*l.*, and that of No. 2, 40*l.*, but if corn rose five per cent., or to 4*l.* 4s., rent would also rise five per cent., for twenty quarters of corn would then be worth 84*l.*, and ten quarters 42*l.*; so that in every case the landlord will be unaffected by such a tax. A tax on the profits of stock always leaves corn rent unaltered, and therefore money rent varies with the price of corn; but a tax on raw produce, or tithes, never leaves corn rent unaltered, but generally leaves money-rent the same as before. In another part of this work I have observed, that if a land-tax of the same money amount were laid on every kind of land in cultivation, without any allowance for difference of fertility, it would be very unequal in its operation, as it would be a profit to the landlord of the more fertile lands. It would raise the price of corn in proportion to the burden borne by the farmer of the worst land; but this additional price being obtained for the greater quantity of produce yielded by the better land, farmers of such land would be benefited during their leases, and afterwards, the advantage would go to the landlord in the form of an increase of rent. The effect of an equal tax on the *profits* of the farmer is precisely the same; it raises the money rent of the landlords, if money retains the same value; but as the profits of all other trades are taxed as well as those of the farmer, and consequently the prices of all goods, as well as corn, are raised, the landlord loses as much by the increased money price of the goods and corn on which his rent is expended, as he gains by the rise of his rent. If money should rise in value, and all things should, after a tax on the profits of stock, fall to their former prices, rent also would be the same as before. The landlord would receive the same money rent, and would obtain all the com-

modities on which it was expended at their former price; so that under all circumstances he would continue untaxed.*

This circumstance is curious. By taxing the profits of the farmer you do not burthen him more than if you exempted his profits from the tax, and the landlord has a decided interest that his tenants' profits should be taxed, as it is only on that condition that he himself continues really untaxed.

A tax on the profits of capital would also affect the stock-holder, if all commodities were to rise in proportion to the tax, although his dividends continued untaxed; but if, from the alteration in the value of money, all commodities were to sink to their former price, the stock-holder would pay nothing towards the tax; he would purchase all his commodities at the same price, but would still receive the same money dividend.

If it be agreed, that by taxing the profits of one manufacturer only, the price of his goods would rise, to put him on an equality with all other manufacturers; and that by taxing the profits of two manufacturers, the prices of two descriptions of goods must rise, I do not see how it can be disputed, that by taxing the profits of all manufacturers, the prices of all goods would rise, provided the mine which supplied us with money were in this country, and continued untaxed. But as money, or the standard of money, is a commodity imported from abroad, the prices of all goods could not rise; for such an effect could not take place without an additional quantity of money,† which could not be obtained in exchange for dear goods, as was shown in page 57. If, however, such a rise could take place, it could not be permanent, for it would have a powerful influence on foreign trade. In return for commodities imported, those dear goods could not be exported, and therefore we should for a time continue to buy, although we ceased to sell; and should export money, or bullion, till the relative prices of commodities were nearly the same as before. It appears to me absolutely certain, that a well regulated tax on profits, would ultimately

* That the profits of the farmer only should be taxed, and not the profits of any other capitalist, would be highly beneficial to landlords. It would, in fact, be a tax on the consumers of raw produce, partly for the benefit of the State, and partly for the benefit of landlords.

† On further consideration, I doubt whether any more money would be required to circulate the same quantity of commodities, if their prices be raised by taxation, and not by difficulty of production. Suppose 100,000 quarters of corn to be sold in a certain district, and in a certain time, at 4*l.* per quarter, and that in consequence of a direct tax of 8s. per quarter, corn rises to 4*l.* 8s., the same quantity of money, I think, and no more, would be required to circulate this corn at the increased price. If I before purchased 11 quarters at 4*l.*, and, in consequence of the tax, am obliged to reduce my consumption to 10 quarters, I shall not require more money, for in all cases I shall pay 44*l.* for my corn. The public would, in fact, consume one-eleventh less, and this quantity would be consumed by Government. The money necessary to purchase it, would be derived from the 8s. per quarter, to be received from the farmers in the shape of a tax, but the amount levied would at the same time be paid to them for their corn; therefore the tax is in fact a tax in kind, and does not make it necessary that any more money should be used, or, if any, so little, that the quantity may be safely neglected.

restore commodities, both of home and foreign manufacture, to the same money price which they bore before the tax was imposed.

As taxes on raw produce, tithes, taxes on wages, and on the necessaries of the labourer, will, by raising wages, lower profits, they will all, though not in an equal degree, be attended with the same effects.

The discovery of machinery, which materially improves home manufactures, always tends to raise the relative value of money, and therefore to encourage its importation. All taxation, all increased impediments, either to the manufacturer or the grower of commodities, tend, on the contrary, to lower the relative value of money, and therefore to encourage its exportation.

## CHAPTER XVI.

### TAXES ON WAGES.

Taxes on wages will raise wages, and therefore will diminish the rate of the profits of stock. We have already seen that a tax on necessaries will raise their prices, and will be followed by a rise of wages. The only difference between a tax on necessaries and a tax on wages is, that the former will necessarily be accompanied by a rise in the price of necessaries, but the latter will not; towards a tax on wages, consequently, neither the stock-holder, the landlord, nor any other class but the employers of labour will contribute. A tax on wages is wholly a tax on profits; a tax on necessaries is partly a tax on profits and partly a tax on rich consumers. The ultimate effects which will result from such taxes, then, are precisely the same as those which result from a direct tax on profits.

"The wages of the inferior classes of workmen," says Adam Smith, "I have endeavoured to show in the first book, are everywhere necessarily regulated by two different circumstances,—the demand for labour, and the ordinary or average price of provisions. The demand for labour, according as it happens to be either increasing, stationary, or declining, or to require an increasing, stationary, or declining population, regulates the subsistence of the labourer, and determines in what degree it shall be either liberal, moderate, or scanty. The *ordinary or average* price of provisions determines the quantity of money which must be paid to the workmen, in order to enable him, one year with another, to purchase this liberal, moderate, or scanty subsistence. While the demand for labour and the price of provisions, therefore, remain the same, a direct tax upon the wages of labour can have no other effect than to raise them somewhat higher than the tax."

To the proposition, as it is here advanced by Dr Smith, Mr Buchanan offers two objections. First, he denies that the money wages of labour are regulated by the price of provisions; and secondly, he denies that a tax on the wages of labour would raise the price of labour. On the first point Mr Buchanan's argument is as follows, page 59: "The wages of labour, it has already been remarked, consist not in money, but in what money purchases, namely, provisions and other necessaries; and the allowance of the labourer out of the common stock will always be in proportion to the supply. Where provisions are *cheap and abundant*, his share

will be the larger; and where they are *scarce and dear*, it will be the less. His wages will always give him his just share, and they cannot give him more. It is an opinion, indeed, adopted by Dr Smith and most other writers, that the money price of labour is regulated by the money price of provisions, and that, when provisions rise in price, wages rise in proportion. But it is clear that the price of labour has no necessary connexion with the price of food, since it depends entirely on the supply of labourers compared with the demand. Besides, it is to be observed, that the high price of provisions is a certain indication of a deficient supply, and arises in the natural course of things for the purpose of retarding the consumption. A smaller supply of food, shared among the same number of consumers, will evidently leave a smaller portion to each, and the labourer must bear his share of the common want. To distribute this burden equally, and to prevent the labourer from consuming subsistence so freely as before, the price rises. But wages, it seems, must rise along with it, that he may still use the same quantity of a scarcer commodity; and thus nature is represented as counteracting her own purposes;—first, raising the price of food to diminish the consumption, and afterwards raising wages to give the labourer the same supply as before."

In this argument of Mr Buchanan, there appears to me to be a great mixture of truth and error. Because a high price of provisions is sometimes occasioned by a deficient supply, Mr Buchanan assumes it as a certain indication of deficient supply. He attributes to one cause exclusively that which may arise from many. It is undoubtedly true that, in the case of a deficient supply, a smaller quantity will be shared among the same number of consumers, and a smaller portion will fall to each. To distribute this privation equally, and to prevent the labourer from consuming subsistence so freely as before, the price rises. It must, therefore, be conceded to Mr Buchanan that any rise in the price of provisions occasioned by a deficient supply will not necessarily raise the money wages of labour, as the consumption must be retarded, which can only be effected by diminishing the power of the consumers to purchase. But, because the price of provisions is raised by a deficient supply, we are by no means warranted in concluding, as Mr Buchanan appears to do, that there may not be an abundant supply with a high price; not a high price with regard to money only, but with regard to all other things.

The natural price of commodities, which always ultimately governs their market price, depends on the facility of production: but the quantity produced is not in proportion to that facility. Although the lands which are now taken into cultivation are much inferior to the lands in cultivation three centuries ago, and therefore the difficulty of production is increased, who can entertain any doubt but that the quantity produced now very far exceeds the quantity then produced? Not only is a high price compatible

with an increased supply, but it rarely fails to accompany it. If, then, in consequence of taxation, or of difficulty of production, the price of provisions be raised and the quantity be not diminished, the money wages of labour will rise; for, as Mr Buchanan has justly observed, "The wages of labour consist not in money, but in what money purchases, namely, provisions and other necessaries; and the allowance of the labourer out of the common stock will always be in proportion to the supply."

With respect to the second point, whether a tax on the wages of labour would raise the price of labour, Mr Buchanan says, "After the labourer has received the fair recompense of his labour, how can he have recourse on his employer, for what he is afterwards compelled to pay away in taxes? There is no law or principle in human affairs to warrant such a conclusion. After the labourer has received his wages, they are in his own keeping, and he must, as far as he is able, bear the burden of whatever exactions he may ever afterwards be exposed to: for he has clearly no way of compelling those to reimburse him, who have already paid him the fair price of his work." Mr Buchanan has quoted, with great approbation, the following able passage from Mr Malthus's work on population, which appears to me completely to answer his objection. "The price of labour, when left to find its natural level, is a most important political barometer, expressing the relation between the supply of provisions, and the demand for them, between the quantity to be consumed, and the number of consumers; and, taken on the average, independently of accidental circumstances, it further expresses, clearly, the wants of the society respecting population; that is, whatever may be the number of children to a marriage necessary to maintain exactly the present population, the price of labour will be just sufficient to support this number, or be above it, or below it, according to the state of the real funds, for the maintenance of labour, whether stationary, progressive, or retrograde. Instead, however, of considering it in this light, we consider it as something which we may raise or depress at pleasure, something which depends principally on his majesty's justices of the peace. When an advance in the price of provisions already expresses that the demand is too great for the supply, in order to put the labourer in the same condition as before, we raise the price of labour, that is, we increase the demand, and are then much surprised that the price of provisions continues rising. In this, we act much in the same manner as if, when the quicksilver in the common weather-glass stood at *stormy*, we were to raise it by some forcible pressure to settled fair, and then be greatly astonished that it continued raining."

"The price of labour will express clearly the wants of the society respecting population;" it will be just sufficient to support the population, which at that time the state of the funds for the maintenance of labourers requires. If the labourer's wages were before only adequate to supply the requisite population, they will, after

the tax, be inadequate to that supply, for he will not have the same funds to expend on his family. Labour will therefore rise, because the demand continues, and it is only by raising the price that the supply is not checked.

Nothing is more common than to see hats or malt rise when taxed; they rise because the requisite supply would not be afforded if they did not rise: so with labour, when wages are taxed, its price rises, because, if it did not, the requisite population would not be kept up. Does not Mr Buchanan allow all that is contended for, when he says, that "were he (the labourer) indeed reduced to a bare allowance of necessaries, he would then suffer no further abatement of his wages, as he could not on such conditions continue his race?" Suppose the circumstances of the country to be such, that the lowest labourers are not only called upon to continue their race, but to increase it; their wages would be regulated accordingly. Can they multiply in the degree required, if a tax takes from them a part of their wages, and reduces them to bare necessaries?

It is undoubtedly true that a taxed commodity will not rise in proportion to the tax, if the demand for it diminish, and if the quantity cannot be reduced. If metallic money were in general use, its value would not for a considerable time be increased by a tax, in proportion to the amount of the tax, because at a higher price, the demand would be diminished, and the quantity would not be diminished; and unquestionably the same cause frequently influences the wages of labour; the number of labourers cannot be rapidly increased or diminished in proportion to the increase or diminution of the fund which is to employ them; but in the case supposed, there is no necessary diminution of demand for labour, and if diminished, the demand does not abate in proportion to the tax. Mr Buchanan forgets that the fund raised by the tax is employed by Government in maintaining labourers, unproductive indeed, but still labourers. If labour were not to rise when wages are taxed, there would be a great increase in the competition for labour, because the owners of capital, who would have nothing to pay towards such a tax, would have the same funds for employing labour; whilst the Government who received the tax would have an additional fund for the same purpose. Government and the people thus become competitors, and the consequence of their competition is a rise in the price of labour. The same number of men only will be employed, but they will be employed at additional wages.

If the tax had been laid at once on the people of capital, their fund for the maintenance of labour would have been diminished in the very same degree that the fund of Government for that purpose had been increased; and therefore there would have been no rise in wages; for though there would be the same demand, there would not be the same competition. If when the tax were levied, Government at once exported the produce of it as a subsidy to a foreign

State, and if therefore these funds were devoted to the maintenance of foreign, and not of English labourers, such as soldiers, sailors, &c. &c.; then, indeed, there would be a diminished demand for labour, and wages might not increase, although they were taxed; but the same thing would happen if the tax had been laid on consumable commodities, on the profits of stock, or if in any other manner the same sum had been raised to supply this subsidy: less labour could be employed at home. In one case wages are prevented from rising, in the other they must absolutely fall. But suppose the amount of a tax on wages were, after being raised on the labourers, paid gratuitously to their employers, it would increase their money fund for the maintenance of labour, but it would not increase either commodities or labour. It would consequently increase the competition amongst the employers of labour, and the tax would be ultimately attended with no loss either to master or labourer. The master would pay an increased price for labour; the addition which the labourer received would be paid as a tax to Government, and would be again returned to the masters. It must, however, not be forgotten, that the produce of taxes is generally wastefully expended, they are always obtained at the expense of the people's comforts and enjoyments, and commonly either diminish capital or retard its accumulation. By diminishing capital they tend to diminish the real fund destined for the maintenance of labour; and therefore to diminish the real demand for it. Taxes, then, generally, as far as they impair the real capital of the country, diminish the demand for labour, and therefore it is a probable, but not a necessary, nor a peculiar consequence of a tax on wages, that though wages would rise, they would not rise by a sum precisely equal to the tax.

Adam Smith, as we have seen, has fully allowed that the effect of a tax on wages, would be to raise wages by a sum at least equal to the tax, and would be finally, if not immediately, paid by the employer of labour. Thus far we fully agree; but we essentially differ in our views of the subsequent operation of such a tax.

"A direct tax upon the wages of labour, therefore," says Adam Smith, "though the labourer might perhaps pay it out of his hand, could not properly be said to be even advanced by him; at least if the demand for labour and the average price of provisions remained the same after the tax as before it. In all such cases, not only the tax but something more than the tax, would in reality be advanced by the person who immediately employed him. The final payment would in different cases fall upon different persons. The rise which such a tax might occasion in the wages of manufacturing labour, would be advanced by the master manufacturer, *who would be entitled and obliged to charge it with a profit, upon the price of his goods.* The rise which such a tax might occasion in country labour, would be advanced by the farmer, who, in order to maintain the same number of labourers as before, would be obliged to employ a

greater capital. In order to get back this greater capital, *together with the ordinary profits of stock*, it would be necessary that he should retain a larger portion, or what comes to the same thing, the price of a larger portion, of the produce of the land, and consequently that he should pay less rent to the landlord. The final payment of this rise of wages would in this case fall upon the landlord, *together with the additional profits of the farmer who had advanced it.* In all cases, a direct tax upon the wages of labour must, in the long run, occasion both a greater reduction in the rent of land, and a greater rise in the price of manufactured goods, than would have followed, from the proper assessment of a sum equal to the produce of the tax, partly upon the rent of land, and partly upon consumable commodities." Vol. iii. p. 337. In this passage it is asserted that the additional wages paid by farmers will ultimately fall on the landlords, who will receive a diminished rent; but that the additional wages paid by manufacturers will occasion a rise in the price of manufactured goods, and will therefore fall on the consumers of those commodities.

Now, suppose a society to consist of landlords, manufacturers, farmers, and labourers, the labourers, it is agreed, would be recompensed for the tax;—but by whom?—who would pay that portion which did not fall on the landlords?—the manufacturers could pay no part of it; for if the price of their commodities should rise in proportion to the additional wages they paid, they would be in a better situation after than before the tax. If the clothier, the hatter, the shoemaker, &c., should be each able to raise the price of their goods 10 per cent.,—supposing 10 per cent. to recompense them completely for the additional wages they paid,—if, as Adam Smith says, "they would be entitled and obliged to charge the additional wages *with a profit* upon the price of their goods," they could each consume as much as before of each other's goods, and therefore they would pay nothing towards the tax. If the clothier paid more for his hats and shoes, he would receive more for his cloth, and if the hatter paid more for his cloth and shoes, he would receive more for his hats. All manufactured commodities, then, would be bought by them with as much advantage as before, and inasmuch as corn would not be raised in price, which is Dr Smith's supposition, whilst they had an additional sum to lay out upon its purchase, they would be benefited, but not injured by such a tax.

If, then, neither the labourers nor the manufacturers would contribute towards such a tax; if the farmers would be also recompensed by a fall of rent, landlords alone must not only bear its whole weight, but they must also contribute to the increased gains of the manufacturers. To do this, however, they should consume all the manufactured commodities in the country, for the additional price charged on the whole mass is little more than the tax originally imposed on the labourers in manufactures.

Now, it will not be disputed that the clothier, the hatter, and all

other manufacturers, are consumers of each other's goods; it will not be disputed that labourers of all descriptions consume soap, cloth, shoes, candles, and various other commodities; it is therefore impossible that the whole weight of these taxes should fall on landlords only.

But if the labourers pay no part of the tax, and yet manufactured commodities rise in price, wages must rise, not only to compensate them for the tax, but for the increased price of manufactured necessaries, which, as far as it affects agricultural labour, will be a new cause for the fall of rent: and, as far as it affects manufacturing labour, for a further rise in the price of goods. This rise in the price of goods will again operate on wages, and the action and re-action, first of wages on goods, and then of goods on wages, will be extended without any assignable limits. The arguments by which this theory is supported, lead to such absurd conclusions, that it may at once be seen that the principle is wholly indefensible.

All the effects which are produced on the profits of stock and the wages of labour, by a rise of rent and a rise of necessaries, in the natural progress of society, and increasing difficulty of production, will equally follow from a rise of wages in consequence of taxation; and, therefore, the enjoyments of the labourer, as well as those of his employers, will be curtailed by the tax; and not by this tax particularly, but by every other which should raise an equal amount, as they would all tend to diminish the fund destined for the maintenance of labour.

The error of Adam Smith proceeds in the first place from supposing that all taxes paid by the farmer must necessarily fall on the landlord, in the shape of a deduction from rent. On this subject, I have explained myself most fully, and I trust that it has been shown, to the satisfaction of the reader, that since much capital is employed on the land which pays no rent, and since it is the result obtained by this capital which regulates the price of raw produce, no deduction can be made from rent; and, consequently, either no remuneration will be made to the farmer for a tax on wages, or if made, it must be made by an addition to the price of raw produce.

If taxes press unequally on the farmer, he will be enabled to raise the price of raw produce, to place himself on a level with those who carry on other trades; but a tax on wages, which would not affect him more than it would affect any other trade, could not be removed or compensated by a high price of raw produce; for the same reason which should induce him to raise the price of corn, namely, to remunerate himself for the tax, would induce the clothier to raise the price of cloth, the shoemaker, hatter, and upholsterer, to raise the price of shoes, hats, and furniture.

If they could all raise the price of their goods, so as to remunerate themselves, with a profit, for the tax: as they are all consumers of each other's commodities, it is obvious that the tax

could never be paid; for who would be the contributors if all were compensated?

I hope, then, that I have succeeded in showing, that any tax which shall have the effect of raising wages, will be paid by a diminution of profits, and, therefore, that a tax on wages is in fact a tax on profits.

This principle of the division of the produce of labour and capital between wages and profits, which I have attempted to establish, appears to me so certain, that excepting in the immediate effects, I should think it of little importance whether the profits of stock, or the wages of labour, were taxed. By taxing the profits of stock, you would probably alter the rate at which the funds for the maintenance of labour increase, and wages would be disproportioned to the state of that fund, by being too high. By taxing wages, the reward paid to the labourer would also be disproportioned to the state of that fund, by being too low. In the one case by a fall, and in the other by a rise in money wages, the natural equilibrium between profits and wages would be restored. A tax on wages, then, does not fall on the landlord, but it falls on the profits of stock: it does not "entitle and oblige the master manufacturer to charge it with a profit on the prices of his goods," for he will be unable to increase their price, and therefore he must himself wholly and without compensation pay such a tax.*

If the effect of taxes on wages be such as I have described, they do not merit the censure cast upon them by Dr Smith. He observes of such taxes, "These, and some other taxes of the same kind, by raising the price of labour, are said to have ruined the greater part of the manufactures of Holland. Similar taxes, though not quite so heavy, take place in the Milanese, in the states of Genoa, in the duchy of Modena, in the duchies of Parma, Placentia, and Guastalla, and in the ecclesiastical states. A French author of some note, has proposed to reform the finances of his country, by substituting in the room of other taxes, this most ruinous of all taxes. 'There is nothing so absurd,' says Cicero, 'which has not sometimes been asserted by some philosophers.'" And in another place he says: "taxes upon necessaries, by raising the wages of labour, necessarily tend to raise the price of all manufactures, and consequently to diminish the extent of their sale and consumption." They would not merit this censure, even if Dr Smith's principle were correct, that such taxes would enhance the prices of manufactured commodities; for such an effect could be only temporary, and would subject us to no disadvantage in our

* M. Say appears to have imbibed the general opinion on this subject. Speaking of corn, he says, "thence it results, that its price influences the price of *all* other commodities. A farmer, a manufacturer, or a merchant, employs a certain number of workmen, who all have occasion to consume a certain quantity of corn. If the price of corn rises, he is obliged to raise, in an equal proportion, the price of his productions." Vol. i. p. 255.

foreign trade. If any cause should raise the price of a few manufactured commodities, it would prevent or check their exportation; but if the same cause operated generally on all, the effect would be merely nominal, and would neither interfere with their relative value, nor in any degree diminish the stimulus to a trade of barter, which all commerce, both foreign and domestic, really is.

I have already attempted to show, that when any cause raises the prices of all commodities, the effects are nearly similar to a fall in the value of money. If money falls in value all commodities rise in price; and if the effect is confined to one country, it will affect its foreign commerce in the same way as a high price of commodities caused by general taxation; and, therefore, in examining the effects of a low value of money confined to one country, we are also examining the effects of a high price of commodities confined to one country. Indeed, Adam Smith was fully aware of the resemblance between these two cases, and consistently maintained that the low value of money, or, as he calls it, of silver in Spain, in consequence of the prohibition against its exportation, was very highly prejudicial to the manufactures and foreign commerce of Spain. "But that degradation in the value of silver, which being the effect either of the peculiar situation, or of the political institutions of a particular country, takes place only in that country, is a matter of very great consequence, which, far from tending to make any body really richer, tends to make every body really poorer. *The rise in the money price of all commodities, which is in this case peculiar to that country*, tends to discourage more or less every sort of industry which is carried on within it, and to enable foreign nations, by furnishing almost all sorts of goods for a smaller quantity of silver than its own workmen can afford to do, to undersell them not only in the foreign but even in the home market." Vol. ii. p. 278.

One, and I think the only one, of the disadvantages of a low value of silver in a country, proceeding from a forced abundance, has been ably explained by Dr Smith. If the trade in gold and silver were free, "the gold and silver which would go abroad would not go abroad for nothing, but would bring back an equal value of goods of some kind or another. Those goods, too, would not be all matters of mere luxury and expense to be consumed by idle people, who produce nothing in return for their consumption. As the real wealth and revenue of idle people would not be augmented by this extraordinary exportation of gold and silver, so would neither their consumption be augmented by it. Those goods would —probably the greater part of them, and certainly some part of them—consist in materials, tools, and provisions, for the employment and maintenance of industrious people, who would reproduce with a profit the full value of their consumption. A part of the dead stock of the society would thus be turned into active stock, and would put into motion a greater quantity of industry than had been employed before."

By not allowing a free trade in the precious metals when the prices of commodities are raised, either by taxation, or by the influx of the precious metals, you prevent a part of the dead stock of the society from being turned into active stock—you prevent a greater quantity of industry from being employed. But this is the whole amount of the evil,—an evil never felt by those countries where the exportation of silver is either allowed or connived at.

The exchanges between countries are at par only whilst they have precisely that quantity of currency which, in the actual situation of things, they should have to carry on the circulation of their commodities. If the trade in the precious metals were perfectly free, and money could be exported without any expense whatever, the exchanges could be no otherwise in every country than at par. If the trade in the precious metals were perfectly free,—if they were generally used in circulation, even with the expenses of transporting them, the exchange could never in any of them deviate more from par than by these expenses. These principles, I believe, are now nowhere disputed. If a country used paper money not exchangeable for specie, and, therefore, not regulated by any fixed standard, the exchanges in that country might deviate from par, in the same proportion as its money might be multiplied beyond that quantity which would have been allotted to it by general commerce, if the trade in money had been free, and the precious metals had been used, either for money, or for the standard of money.

If by the general operations of commerce, 10 millions of pounds sterling, of a known weight and fineness of bullion, should be the portion of England, and 10 millions of paper pounds were substituted, no effect would be produced on the exchange; but if by the abuse of the power of issuing paper money, 11 millions of pounds should be employed in the circulation, the exchange would be 9 per cent. against England; if 12 millions were employed, the exchange would be 16 per cent.; and if 20 millions, the exchange would be 50 per cent. against England. To produce this effect it is not, however, necessary that paper money should be employed: any cause which retains in circulation a greater quantity of pounds than would have circulated, if commerce had been free, and the precious metals of a known weight and fineness had been used, either for money, or for the standard of money, would exactly produce the same effects. Suppose that by clipping the money, each pound did not contain the quantity of gold or silver which by law it should contain, a greater number of such pounds might be employed in the circulation than if they were not clipped. If from each pound one-tenth were taken away, 11 millions of such pounds might be used instead of 10; if two-tenths were taken away, 12 millions might be employed; and if one-half were taken away, 20 millions might not be found superfluous. If the latter sum were used instead of 10 millions, every commodity in England would be raised to double its former price, and the exchange would be

50 per cent. against England; but this would occasion no disturbance in foreign commerce, nor discourage the manufacture of any one commodity. If, for example, cloth rose in England from 20*l.* to 40*l.* per piece, we should just as freely export it after as before the rise, for a compensation of 50 per cent. would be made to the foreign purchaser in the exchange; so that with 20*l.* of his money, he could purchase a bill which would enable him to pay a debt of 40*l.* in England. In the same manner, if he exported a commodity which cost 20*l.* at home, and which sold in England for 40*l.*, he would only receive 20*l.*, for 40*l.* in England would only purchase a bill for 20*l.* on a foreign country. The same effects would follow from whatever cause 20 millions could be forced to perform the business of circulation in England, if 10 millions only were necessary. If so absurd a law as the prohibition of the exportation of the precious metals could be enforced, and the consequence of such prohibition were to force 11 millions of good pounds, fresh from the mint, instead of 10, into circulation, the exchange would be 9 per cent. against England; if 12 millions, 16 per cent.; and if 20 millions, 50 per cent. against England. But no discouragement would be given to the manufactures of England; if home commodities sold at a high price in England, so would foreign commodities; and whether they were high or low would be of little importance to the foreign exporter and importer, whilst he would, on the one hand, be obliged to allow a compensation in the exchange when his commodities sold at a dear rate, and would receive the same compensation when he was obliged to purchase English commodities at a high price. The sole disadvantage, then, which could happen to a country from retaining, by prohibitory laws, a greater quantity of gold and silver in circulation than would otherwise remain there, would be the loss which it would sustain from employing a portion of its capital unproductively instead of employing it productively. In the form of money, this capital is productive of no profit; in the form of materials, machinery, and food, for which it might be exchanged, it would be productive of revenue, and would add to the wealth and the resources of the state. Thus, then, I hope, I have satisfactorily proved, that a comparatively low price of the precious metals, in consequence of taxation, or in other words, a generally high price of commodities, would be of no disadvantage to a state, as a part of the metals would be exported, which, by raising their value, would again lower the prices of commodities. And further, that if they were not exported, if by prohibitory laws they could be retained in a country, the effect on the exchange would counterbalance the effect of high prices. If, then, taxes on necessaries and on wages would not raise the prices of all commodities on which labour was expended, they cannot be condemned on such grounds; and moreover, even if the opinion given by Adam Smith, that they would have such an effect were well founded, they would be in no degree injurious on that account.

They would be objectionable for no other reason than those which might be justly urged against taxes of any other description.

The landlords, as such, would be exempted from the burden of the tax; but as far as they directly employed labour in the expenditure of their revenues, by supporting gardeners, menial servants, &c., they would be subject to its operation.

It is undoubtedly true, that "taxes upon luxuries have no tendency to raise the price of any other commodities, except that of the commodities taxed;" but it is not true, "that taxes upon necessaries, by raising the wages of labour, necessarily tend to raise the price of all manufactures." It is true that "taxes upon luxuries are finally paid by the consumers of the commodities taxed, without any retribution. They fall indifferently upon every species of revenue. the wages of labour, the profits of stock, and the rent of land;" but it is not true, "that taxes upon necessaries, *so far as they affect the labouring poor*, are finally paid partly by landlords in the diminished rent of their lands, and partly by rich consumers, whether landlords or others, in the advanced price of manufactured goods;" for, *so far as these taxes affect the labouring poor*, they will be almost wholly paid by the diminished profits of stock, a small part only being paid by the labourers themselves in the diminished demand for labour, which taxation of every kind has a tendency to produce.

It is from Dr Smith's erroneous view of the effect of those taxes, that he has been led to the conclusion, that "the middling and superior ranks of people, if they understood their own interest, ought always to oppose all taxes upon the necessaries of life, as well as all direct taxes upon the wages of labour." This conclusion follows from his reasoning, "that the final payment of both one and the other falls altogether upon themselves, and always with a considerable overcharge. They fall heaviest upon the landlords,* who always pay in a double capacity; in that of landlords, by the reduction of their rent, and in that of rich consumers, by the increase of their expense. The observation of Sir Matthew Decker, that certain taxes are, in the price of certain goods, sometimes repeated and accumulated four or five times, is perfectly just with regard to taxes upon the necessaries of life. In the price of leather, for example, you must pay, not only for the tax upon the leather of your own shoes, but for a part of that upon those of the shoemaker and the tanner. You must pay too, for the tax upon the salt, upon the soap, and upon the candles, which those workmen consume while employed in your service, and for the tax upon the leather, which the salt-maker, the soap-maker, and the candle-maker consume, while employed in their service."

Now as Dr Smith does not contend that the tanner, the salt-maker, the soap-maker, and the candle-maker, will either of them be benefited by the tax on leather, salt, soap, and candles; and as

* So far from this being true, they would scarcely affect the landlords and stockholder.

it is certain, that Government will receive no more than the tax imposed, it is impossible to conceive, that more can be paid by the public upon whomsoever the tax may fall. The rich consumers may, and indeed will, pay for the poor consumer, but they will pay no more than the whole amount of the tax; and it is not in the nature of things, that "the tax should be repeated and accumulated four or five times."

A system of taxation may be defective: more may be raised from the people, than what finds its way into the coffers of the State, as a part, in consequence of its effect on prices, may possibly be received by those who are benefited by the peculiar mode in which taxes are laid. Such taxes are pernicious, and should not be encouraged; for it may be laid down as a principle, that when taxes operate justly, they conform to the first of Dr Smith's maxims, and raise from the people as little as possible beyond what enters into the public treasury of the State. M. Say says, "others offer plans of finance, and propose means for filling the coffers of the sovereign, without any charge to his subjects. But unless a plan of finance is of the nature of a commercial undertaking, it cannot give to Government more than it takes away, either from individuals or from Government itself, under some other form. Something cannot be made out of nothing, by the stroke of a wand. In whatever way an operation may be disguised, whatever forms we may constrain a value to take, whatever metamorphosis we may make it undergo, we can only have a value by creating it, or by taking it from others. The very best of all plans of finance is to spend little, and the best of all taxes is, that which is the least in amount."

Dr Smith uniformly, and I think justly, contends, that the labouring classes cannot materially contribute to the burdens of the State. A tax on necessaries, or on wages, will therefore be shifted from the poor to the rich: if then the meaning of Dr Smith is, "that certain taxes are in the price of certain goods sometimes repeated, and accumulated four or five times," for the purpose only of accomplishing this end, namely, the transference of the tax from the poor to the rich, they cannot be liable to censure on that account.

Suppose the just share of the taxes of a rich consumer to be 100*l*., and that he would pay it directly, if the tax were laid on income, on wine, or on any other luxury, he would suffer no injury if, by the taxation of necessaries, he should be only called upon for the payment of 25*l*., as far as his own consumption of necessaries, and that of his family was concerned; but should be required to repeat this tax three times, by paying an additional price for other commodities to remunerate the labourers, or their employers, for the tax which they have been called upon to advance. Even in that case the reasoning is inconclusive: for if there be no more paid than what is required by Government; of what importance can it be to the rich consumer, whether he pay the tax directly, by paying

an increased price for an object of luxury, or indirectly, by paying an increased price for the necessaries and other commodities he consumes? If more be not paid by the people than what is received by Government, the rich consumer will only pay his equitable share; if more is paid, Adam Smith should have stated by whom it is received; but his whole argument is founded in error, for the prices of commodities would not be raised by such taxes.

M. Say does not appear to me to have consistently adhered to the obvious principle, which I have quoted from his able work; for in the next page, speaking of taxation, he says, "When it is pushed too far, it produces this lamentable effect, it deprives the contributor of a portion of his riches, without enriching the State. This is what we may comprehend, if we consider that every man's power of consuming, whether productively or not, is limited by his income. He cannot then be deprived of a part of his income, without being obliged proportionally to reduce his consumption. Hence arises a diminution of demand for those goods, which he no longer consumes, and particularly for those on which the tax is imposed. From this diminution of demand, there results a diminution of production, and consequently of taxable commodities. The contributor then will lose a portion of his enjoyments; the producer a portion of his profits; and the treasury, a portion of its receipts."

M. Say instances the tax on salt in France, previous to the revolution; which, he says, diminished the production of salt by one half. If, however, less salt was consumed, less capital was employed in producing it; and, therefore, though the producer would obtain less profit on the production of salt, he would obtain more on the production of other things. If a tax, however burdensome it may be, falls on revenue, and not on capital, it does not diminish demand, it only alters the nature of it. It enables Government to consume as much of the produce of the land and labour of the country, as was before consumed by the individuals who contribute to the tax, an evil sufficiently great without overcharging it. If my income is 1000*l.* per annum, and I am called upon for 100*l.* per annum for a tax, I shall only be able to demand nine-tenths of the quantity of goods, which I before consumed, but I enable Government to demand the other tenth. If the commodity taxed be corn, it is not necessary that my demand for corn should diminish, as I may prefer to pay 100*l.* per annum more for my corn, and to the same amount abate in my demand for wine, furniture, or any other luxury.* Less capital will consequently be employed in the wine or upholstery trade, but more will be em-

* M. Say says, "that the tax added to the price of a commodity, raises its price. Every increase in the price of a commodity, necessarily reduces the number of those who are able to purchase it, or at least the quantity they will consume of it." This is by no means a necessary consequence. I do not believe, that if bread were taxed, the consumption of bread would be diminished, more than if cloth, wine, or soap were taxed.

ployed in manufacturing those commodities, on which the taxes levied by Government will be expended.

M. Say says that M. Turgot, by reducing the market dues on fish (*les droits d'entrée et de halle sur la marée*) in Paris one half, did not diminish the amount of their produce, and that consequently, the consumption of fish must have doubled. He infers from this, that the profits of the fisherman and those engaged in the trade, must also have doubled, and that the income of the country must have increased, by the whole amount of these increased profits; and by giving a stimulus to accumulation, must have increased the resources of the State.*

Without calling in question the policy which dictated this alteration of the tax, I have my doubts, whether it gave any great stimulus to accumulation. If the profits of the fisherman and others engaged in the trade, were doubled in consequence of more fish being consumed, capital and labour must have been withdrawn from other occupations to engage them in this particular trade. But in those occupations capital and labour were productive of profits, which must have been given up when they were withdrawn. The ability of the country to accumulate, was only increased by the difference between the profits obtained in the business in which the capital was newly engaged, and those obtained in that from which it was withdrawn.

Whether taxes be taken from revenue or capital, they diminish the taxable commodities of the State. If I cease to expend 100*l.* on wine, because by paying a tax of that amount I have enabled Government to expend 100*l.* instead of expending it myself, one hundred pounds' worth of goods are necessarily withdrawn from the list of taxable commodities. If the revenue of the individuals of a country be 10 millions, they will have at least 10 millions' worth of taxable commodities. If, by taxing some, one million be transferred to the disposal of Government, their revenue will still be nominally 10 millions, but they will remain with only nine millions' worth of taxable commodities. There are no circumstances under which taxation does not abridge the enjoyments of those on whom the taxes ultimately fall, and no means by which those enjoyments can again be extended but the accumulation of new revenue.

Taxation can never be so equally applied as to operate in the same proportion on the value of all commodities, and still to preserve them at the same relative value. It frequently operates very differently from the intention of the legislature, by its indirect

* The following remark of the same author appears to me equally erroneous: "When a high duty is laid on cotton, the production of all those goods of which cotton is the basis is diminished. If the total value added to cotton in its various manufactures, in a particular country, amounted to 100 millions of francs per annum, and the effect of the tax was, to diminish the consumption one half, then the tax would deprive that country every year of 50 millions of francs, in addition to the sum received by Government." Vol. ii. p. 314

effects. We have already seen that the effect of a direct tax on corn and raw produce is, if money be also produced in the country, to raise the price of all commodities in proportion as raw produce enters into their composition, and thereby to destroy the natural relation which previously existed between them. Another indirect effect is, that it raises wages, and lowers the rate of profits; and we have also seen, in another part of this work, that the effect of a rise of wages and a fall of profits is to lower the money prices of those commodities which are produced in a greater degree by the employment of fixed capital.

That a commodity, when taxed, can no longer be so profitably exported, is so well understood, that a drawback is frequently allowed on its exportation, and a duty laid on its importation. If these drawbacks and duties be accurately laid, not only on the commodities themselves, but on all which they may indirectly affect, then, indeed, there will be no disturbance in the value of the precious metals. Since we could as readily export a commodity after being taxed as before, and since no peculiar facility would be given to importation, the precious metals would not, more than before, enter into the list of exportable commodities.

Of all commodities none are perhaps so proper for taxation as those which, either by the aid of nature or art, are produced with peculiar facility. With respect to foreign countries, such commodities may be classed under the head of those which are not regulated in their price by the quantity of labour bestowed, but rather by the caprice, the tastes, and the power of the purchasers. If England had more productive tin mines than other countries, or if, from superior machinery or fuel, she had peculiar facilities in manufacturing cotton goods, the prices of tin and of cotton goods would still in England be regulated by the comparative quantity of labour and capital required to produce them, and the competition of our merchants would make them very little dearer to the foreign consumer. Our advantage in the production of these commodities might be so decided, that probably they could bear a very great additional price in the foreign market, without very materially diminishing their consumption. This price they never could attain, whilst competition was free at home, by any other means but by a tax on their exportation. This tax would fall wholly on foreign consumers, and part of the expenses of the Government of England would be defrayed by a tax on the land and labour of other countries. The tax on tea, which at present is paid by the people of England, and goes to aid the expenses of the Government of England, might, if laid in China on the exportation of the tea, be diverted to the payment of the expenses of the Government of China.

Taxes on luxuries have some advantage over taxes on necessaries. They are generally paid from income, and therefore do not diminish the productive capital of the country. If wine were much raised in price in consequence of taxation, it is probable that a man would

rather forego the enjoyments of wine than make any important encroachments on his capital to be enabled to purchase it. They are so identified with price that the contributor is hardly aware that he is paying a tax. But they have also their disadvantages. First, they never reach capital, and on some extraordinary occasions it may be expedient that even capital should contribute towards the public exigencies; and, secondly, there is no certainty as to the amount of the tax, for it may not reach even income. A man intent on saving will exempt himself from a tax on wine by giving up the use of it. The income of the country may be undiminished, and yet the state may be unable to raise a shilling by the tax.

Whatever habit has rendered delightful will be relinquished with reluctance, and will continue to be consumed notwithstanding a very heavy tax; but this reluctance has its limits, and experience every day demonstrates that an increase in the nominal amount of taxation often diminishes the produce. One man will continue to drink the same quantity of wine, though the price of every bottle should be raised three shillings, who would yet relinquish the use of wine rather than pay four. Another will be content to pay four, yet refuse to pay five shillings. The same may be said of other taxes on luxuries: many would pay a tax of 5*l.* for the enjoyment which a horse affords, who would not pay 10*l.* or 20*l.* It is not because they cannot pay more that they give up the use of wine and of horses, but because they will not pay more. Every man has some standard in his own mind by which he estimates the value of his enjoyments, but that standard is as various as the human character. A country whose financial situation has become extremely artificial, by the mischievous policy of accumulating a large national debt, and a consequently enormous taxation, is particularly exposed to the inconvenience attendant on this mode of raising taxes. After visiting with a tax the whole round of luxuries; after laying horses, carriages, wine, servants, and all the other enjoyments of the rich under contribution; a minister is induced to have recourse to more direct taxes, such as income and property taxes, neglecting the golden maxim of M. Say, "that the very best of all plans of finance is to spend little, and the best of all taxes is that which is the least in amount."

## CHAPTER XVII.

### TAXES ON OTHER COMMODITIES THAN RAW PRODUCE.

On the same principle that a tax on corn would raise the price of corn, a tax on any other commodity would raise the price of that commodity. If the commodity did not rise by a sum equal to the tax, it would not give the same profit to the producer which he had before, and he would remove his capital to some other employment.

The taxing of all commodities, whether they be necessaries or luxuries, will, while money remains at an unaltered value, raise their prices by a sum at least equal to the tax.* A tax on the manufactured necessaries of the labourer would have the same effect on wages as a tax on corn, which differs from other necessaries only by being the first and most important on the list; and it would produce precisely the same effects on the profits of stock and foreign trade. But a tax on luxuries would have no other effect than to raise their price. It would fall wholly on the consumer, and could neither increase wages nor lower profits.

Taxes which are levied on a country for the purpose of supporting war, or for the ordinary expenses of the State, and which are chiefly devoted to the support of unproductive labourers, are taken from the productive industry of the country; and every saving which can be made from such expenses will be generally added to the income, if not to the capital of the contributors. When, for the expenses of a year's war, twenty millions are raised by means of a loan, it is the twenty millions which are withdrawn from the

* It is observed by M. Say, "that a manufacturer is not enabled to make the consumer pay the whole tax levied on his commodity, because its increased price will diminish its consumption." Should this be the case, should the consumption be diminished, will not the supply also speedily be diminished? Why should the manufacturer continue in the trade, if his profits are below the general level? M. Say appears here also to have forgotten the doctrine which he elsewhere supports, "that the cost of production determines the price, below which commodities cannot fall for any length of time, because production would be then either suspended or diminished."—Vol. ii. p. 26.

"The tax in this case falls then partly on the consumer, who is obliged to give more for the commodity taxed, and partly on the producer, who, after deducting the tax, will receive less. The public treasury will be benefited by what the purchaser pays in addition, and also by the sacrifice which the producer is obliged to make of a part of his profits. It is the effort of gunpowder, which acts at the same time on the bullet which it projects, and on the gun which it causes to recoil."—Vol. ii. p. 333.

productive capital of the nation. The million per annum which is raised by taxes to pay the interest of this loan, is merely transferred from those who pay it to those who receive it, from the contributor to the tax to the national creditor. The real expense is the twenty millions, and not the interest which must be paid for it.* Whether the interest be or be not paid, the country will neither be richer nor poorer. Government might at once have required the twenty millions in the shape of taxes; in which case it would not have been necessary to raise annual taxes to the amount of a million. This, however, would not have changed the nature of the transaction. An individual, instead of being called upon to pay 100*l.* per annum, might have been obliged to pay 2000*l.* once for all. It might also have suited his convenience rather to borrow this 2000*l.*, and to pay 100*l.* per annum for interest to the lender, than to spare the larger sum from his own funds. In one case, it is a private transaction between A and B, in the other Government guarantees to B the payment of interest to be equally paid by A. If the transaction had been of a private nature, no public record would be kept of it, and it would be a matter of comparative indifference to the country whether A faithfully performed his contract to B, or unjustly retained the 100*l.* per annum in his own possession. The country would have a general interest in the faithful performance of a contract, but with respect to the national wealth, it would have no other interest than whether A or B would make this 100*l.* most productive; but on this question it would neither have the right nor the ability to decide. It might be possible, that if A retained it for his own use, he might squander it unprofitably, and if it were paid to B, he might add it to his capital, and employ it productively. And the converse would also be possible; B might squander it, and A might employ it productively. With a view to wealth only, it might be equally or more desirable that A should or should not pay it; but the claims of justice and good faith, a greater utility, are not to be compelled to yield to those of a less; and accordingly, if the State were called upon to interfere, the courts of justice would oblige A to perform his contract. A debt guaranteed by the nation, differs in no respect from the above transaction. Justice and good

* "Melon says, that the debts of a nation are debts due from the right hand to the left, by which the body is not weakened. It is true that the general wealth is not diminished by the payment of the interest on arrears of the debt: The dividends are a value which passes from the hand of the contributor to the national creditor: Whether it be the national creditor or the contributor who accumulates or consumes it, is, I agree, of little importance to the society; but the principal of the debt—what has become of that? It exists no more. The consumption which has followed the loan has annihilated a capital which will never yield any further revenue. The society is deprived not of the amount of interest, since that passes from one hand to the other, but of the revenue from a destroyed capital. This capital, if it had been employed productively by him who lent it to the State, would equally have yielded him an income, but that income would have been derived from a real production, and would not have been furnished from the pocket of a fellow citizen."—*Say*, vol. ii. p. 357. This is both conceived and expressed in the true spirit of the science.

faith demand that the interest of the national debt should continue to be paid, and that those who have advanced their capitals for the general benefit, should not be required to forego their equitable claims, on the plea of expediency.

But independently of this consideration, it is by no means certain that political utility would gain anything by the sacrifice of political integrity; it does by no means follow that the party exonerated from the payment of the interest of the national debt would employ it more productively than those to whom indisputably it is due. By cancelling the national debt, one man's income might be raised from 1000*l.* to 1,500*l.*, but another man's would be lowered from 1,500*l.* to 1000*l.* These two men's incomes now amount to 2,500*l.*; they would amount to no more then. If it be the object of Government to raise taxes, there would be precisely the same taxable capital and income in one case as in the other. It is not, then, by the payment of the interest on the national debt that a country is distressed, nor is it by the exoneration from payment that it can be relieved. It is only by saving from income, and retrenching in expenditure, that the national capital can be increased; and neither the income would be increased, nor the expenditure diminished by the annihilation of the national debt. It is by the profuse expenditure of Government and of individuals, and by loans, that the country is impoverished; every measure, therefore, which is calculated to promote public and private economy will relieve the public distress; but it is error and delusion to suppose that a real national difficulty can be removed by shifting it from the shoulders of one class of the community, who justly ought to bear it, to the shoulders of another class, who, upon every principle of equity, ought to bear no more than their share.

From what I have said, it must not be inferred that I consider the system of borrowing as the best calculated to defray the extraordinary expenses of the State. It is a system which tends to make us less thrifty—to blind us to our real situation. If the expenses of a war be 40 millions per annum, and the share which a man would have to contribute towards that annual expense were 100*l.*, he would endeavour, on being at once called upon for his portion, to save speedily the 100*l.* from his income. By the system of loans, he is called upon to pay only the interest of this 100*l.*, or 5*l.* per annum, and considers that he does enough by saving this 5*l.* from his expenditure, and then deludes himself with the belief that he is as rich as before. The whole nation, by reasoning and acting in this manner, save only the interest of 40 millions, or two millions; and thus, not only lose all the interest or profit which 40 millions of capital, employed productively, would afford, but also 38 millions, the difference between their savings and expenditure. If, as I before observed, each man had to make his own loan, and contribute his full proportion to the exigencies of the State, as soon as the war ceased, taxation would cease, and we should immediately fall into

a natural state of prices. Out of his private funds, A might have to pay to B interest for the money he borrowed of him during the war, to enable him to pay his quota of the expense; but with this the nation would have no concern.

A country which has accumulated a large debt, is placed in a most artificial situation; and although the amount of taxes, and the increased price of labour, may not, and I believe does not, place it under any other disadvantage with respect to foreign countries, except the unavoidable one of paying those taxes, yet it becomes the interest of every contributor to withdraw his shoulder from the burthen, and to shift this payment from himself to another; and the temptation to remove himself and his capital to another country, where he will be exempted from such burthens, becomes at last irresistible, and overcomes the natural reluctance which every man feels to quit the place of his birth, and the scene of his early associations. A country which has involved itself in the difficulties attending this artificial system, would act wisely by ransoming itself from them, at the sacrifice of any portion of its property which might be necessary to redeem its debt. That which is wise in an individual, is wise also in a nation. A man who has 10,000*l.*, paying him an income of 500*l.*, out of which he has to pay 100*l.* per annum towards the interest of the debt, is really worth only 8000*l.*, and would be equally rich, whether he continued to pay 100*l.* per annum, or at once, and for only once, sacrificed 2000*l.* But where, it is asked, would be the purchaser of the property which he must sell to obtain this 2000*l.*? The answer is plain: the national creditor, who is to receive this 2000*l.*, will want an investment for his money, and will be disposed either to lend it to the landholder, or manufacturer, or to purchase from them a part of the property of which they have to dispose. To such a payment the stockholders themselves would largely contribute. This scheme has been often recommended, but we have, I fear, neither wisdom enough, nor virtue enough, to adopt it. It must, however, be admitted, that during peace, our unceasing efforts should be directed towards paying off that part of the debt which has been contracted during war; and that no temptation of relief, no desire of escape from present, and I hope temporary distresses, should induce us to relax in our attention to that great object.

No sinking fund can be efficient for the purpose of diminishing the debt, if it be not derived from the excess of the public revenue over the public expenditure. It is to be regretted, that the sinking fund in this country is only such in name; for there is no excess of revenue above expenditure. It ought, by economy, to be made what it is professed to be, a really efficient fund for the payment of the debt. If, on the breaking out of any future war, we shall not have very considerably reduced our debt, one of two things must happen, either the whole expenses of that war must be defrayed by taxes raised from year to year, or we must, at the end of that war,

if not before, submit to a national bankruptcy: not that we shall be unable to bear any large additions to the debt: it would be difficult to set limits to the powers of a great nation; but assuredly there are limits to the price, which in the form of perpetual taxation, individuals will submit to pay for the privilege merely of living in their native country.*

When a commodity is at a monopoly price, it is at the very highest price at which the consumers are willing to purchase it. Commodities are only at a monopoly price, when by no possible device their quantity can be augmented; and when, therefore, the competition is wholly on one side—amongst the buyers. The monopoly price of one period may be much lower or higher than the monopoly price of another, because the competition amongst the purchasers must depend on their wealth, and their tastes and caprices. Those peculiar wines, which are produced in very limited quantity, and those works of art, which from their excellence or rarity, have acquired a fanciful value, will be exchanged for a very different quantity of the produce of ordinary labour, according as the society is rich or poor, as it possesses an abundance or scarcity of such produce, or as it may be in a rude or polished state. The exchangeable value therefore of a commodity which is at a monopoly price, is nowhere regulated by the cost of production.

Raw produce is not at a monopoly price, because the market price of barley and wheat is as much regulated by their cost of production, as the market price of cloth and linen. The only difference is this, that one portion of the capital employed in agriculture regulates the price of corn, namely, that portion which pays no rent: whereas, in the production of manufactured commodities, every portion of capital is employed with the same results; and as no portion pays rent, every portion is equally a regulator of price: corn, and other raw produce, can be augmented, too, in quantity, by the employment of more capital on the land, and therefore they are not at a monopoly price. There is competition among the sellers, as well as amongst the buyers. This is not the case in the production of those rare wines, and those valuable specimens of art, of which we have been speaking; their quantity cannot be increased, and their price is limited only by the extent of the power and will of the purchasers. The rent of these vineyards may be raised beyond any moderately assignable limits, because no other

* "Credit, in general, is good, as it allows capitals to leave those hands where they are not usefully employed, to pass into those where they will be made productive: it diverts a capital from an employment useful only to the capitalist, such as an investment in the public funds, to make it productive in the hands of industry. It facilitates the employments of all capitals, and leaves none unemployed."—*Economie Politique*, p. 463. 2 Vol. 4th Edition.—This must be an oversight of M. Say. The capital of the stockholder can never be made productive—it is, in fact, no capital. If he were to sell his stock, and employ the capital he obtained for it, productively, he could only do so by detaching the capital of the buyer of his stock from a productive employment.

land being able to produce such wines, none can be brought into competition with them.

The corn and raw produce of a country may, indeed, for a time, sell at a monopoly price; but they can do so permanently only when no more capital can be profitably employed on the lands, and when, therefore, their produce cannot be increased. At such time, every portion of land in cultivation, and every portion of capital employed on the land, will yield a rent, differing, indeed, in proportion to the difference in the return. At such a time, too, any tax which may be imposed on the farmer, will fall on rent, and not on the consumer. He cannot raise the price of his corn, because, by the supposition, it is already at the highest price at which the purchasers will or can buy it. He will not be satisfied with a lower rate of profits than that obtained by other capitalists, and, therefore, his only alternative will be, to obtain a reduction of rent, or to quit his employment.

Mr Buchanan considers corn and raw produce as at a monopoly price, because they yield a rent: all commodities which yield a rent, he supposes, must be at a monopoly price; and thence he infers, that all taxes on raw produce would fall on the landlord, and not on the consumer. "The price of corn," he says, "which always affords a rent, being in no respect influenced by the expenses of its production, those expenses must be paid out of the rent; and when they rise or fall, therefore, the consequence is not a higher or lower price, but a higher or a lower rent. In this view, all taxes on farm servants, horses, or the implements of agriculture, are in reality land taxes,—the burden falling on the farmer during the currency of his lease, and on the landlord, when the lease comes to be renewed. In like manner, all those improved implements of husbandry which save expense to the farmer, such as machines for thrashing and reaping, whatever gives him easier access to the market, such as good roads, canals, and bridges, though they lessen the original cost of corn, do not lessen its market price. Whatever is saved by those improvements, therefore, belongs to the landlord as part of his rent.

It is evident that if we yield to Mr Buchanan the basis on which his argument is built, namely, that the price of corn always yields a rent, all the consequences which he contends for would follow of course. Taxes on the farmer would then fall, not on the consumer, but on rent: and all improvements in husbandry would increase rent: but I hope I have made it sufficiently clear, that, until a country is cultivated in every part, and up to the highest degree, there is always a portion of capital employed on the land which yields no rent, and that it is this portion of capital, the result of which, as in manufactures, is divided between profits and wages, that regulates the price of corn. The price of corn, then, which does not afford a rent, being influenced by the expenses of its production, those expenses cannot be paid out of rent. The conse-

quence, therefore, of those expenses increasing, is a higher price, and not a lower rent.*

It is remarkable that both Adam Smith and Mr Buchanan, who entirely agree that taxes on raw produce, a land tax, and tithes, all fall on the rent of land, and not on the consumers of raw produce, should nevertheless admit that taxes on malt would fall on the consumer of beer, and not on the rent of the landlord. Adam Smith's argument is so able a statement of the view which I take of the subject of the tax on malt, and every other tax on raw produce, that I cannot refrain from offering it to the attention of the reader.

"The rent and profits of barley land must always be nearly equal to those of other equally fertile and equally well cultivated land. If they were less, some part of the barley land would soon be turned to some other purpose; and if they were greater, more land would soon be turned to the raising of barley. When the ordinary price of any particular produce of land is at what may be called a monopoly price, a tax upon it necessarily reduces the rent and profit† of the land which grows it. A tax upon the produce of those precious vineyards, of which the wine falls so much short of the effectual demand that its price is always above the natural proportion to that of other equally fertile and equally well cultivated land, would necessarily reduce the rent and profit† of those vineyards. The price of the wines being already the highest that could be got for the quantity commonly sent to market, it could not be raised higher without diminishing that quantity; and the quantity could not be diminished without still greater loss, because the lands could not be turned to any other equally valuable produce. The whole weight of the tax, therefore, would fall upon the rent and profit;† properly upon the *rent* of the vineyard."—"But the ordinary price of barley has never been a monopoly price; and the rent and profit of barley land have never been above their natural proportion to those of other equally fertile and equally well cultivated land. The different taxes which have been imposed upon malt, beer, and ale, *have never lowered the price of barley;* have never reduced the rent and profit† of barley land. The price of malt to the brewer has constantly risen in proportion to the taxes imposed upon it; and those taxes, together with the different duties upon beer and ale, have constantly either raised the price, or, what comes to the same thing, reduced the quality of those commodities to the consumer. The final payment of those taxes has fallen constantly upon the consumer and

* "Manufacturing industry increases its produce in proportion to the demand, and the price falls; *but the produce of land cannot be so increased;* and a high price is still necessary to prevent the consumption from exceeding the supply."—*Buchanan*, vol. iv. p. 40. Is it possible that Mr Buchanan can seriously assert, that the produce of the land cannot be increased if the demand increases?

† I wish the word "profit" had been omitted. Dr Smith must suppose the profits of the tenants of these precious vineyards to be above the general rate of profits. If they were not, they would not pay the tax, unless they could shift it either to the landlord or consumer.

not upon the producer." On this passage Mr Buchanan remarks, "A duty on malt never could reduce the price of barley, because, unless as much could be made of barley by malting it as by selling it unmalted, the quantity required would not be brought to market. It is clear, therefore, that the price of malt must rise in proportion to the tax imposed on it, as the demand could not otherwise be supplied. The price of barley, however, is just as much a monopoly price as that of sugar; they both yield a rent, and the market price of both has equally lost all connexion with the original cost."

It appears, then, to be the opinion of Mr Buchanan, that a tax on malt would raise the price of malt, but that a tax on the barley from which malt is made would not raise the price of barley; and, therefore, if malt is taxed, the tax will be paid by the consumer; if barley is taxed, it will be paid by the landlord, as he will receive a diminished rent. According to Mr Buchanan, then, barley is at a monopoly price at the highest price which the purchasers are willing to give for it; but malt made of barley is not at a monopoly price, and consequently it can be raised in proportion to the taxes that may be imposed upon it. This opinion of Mr Buchanan of the effects of a tax on malt appears to me to be in direct contradiction to the opinion he has given of a similar tax, a tax on bread. "A tax on bread will be ultimately paid, not by a rise of price, but by a reduction of rent."* If a tax on malt would raise the price of beer, a tax on bread must raise the price of bread.

The following argument of M. Say is founded on the same views as Mr Buchanan's: "The quantity of wine or corn which a piece of land will produce will remain nearly the same, whatever may be the tax with which it is charged. The tax may take away a half, or even three-fourths of its net produce, or of its rent, if you please, yet the land would nevertheless be cultivated for the half or the quarter not absorbed by the tax. The rent, that is to say, the landlord's share, would merely be somewhat lower. The reason of this will be perceived if we consider that, in the case supposed, the quantity of produce obtained from the land and sent to market will remain nevertheless the same. On the other hand, the motives on which the demand for the produce is founded continue also the same.

"Now, if the quantity of produce supplied, and the quantity demanded, necessarily continue the same, notwithstanding the establishment or the increase of the tax, the price of that produce will not vary; and if the price do not vary, the consumer will not pay the smallest portion of this tax.

"Will it be said that the farmer, he who furnishes labour and capital, will, jointly with the landlord, bear the burden of this tax? —certainly not: because the circumstance of the tax has not diminished the number of farms to be let, nor increased the number of farmers. Since, in this instance also, the supply and demand

* Vol. iii. p. 355.

remain the same, the rent of farms must also remain the same. The example of the manufacturer of salt, who can only make the consumers pay a portion of the tax, and that of the landlord, who cannot reimburse himself in the smallest degree, prove the error of those who maintain, in opposition to the economists, that all taxes fall ultimately on the consumer."—Vol. ii. p. 338.

If the tax "took away half, or even three-fourths of the net produce of the land," and the price of produce did not rise, how could those farmers obtain the usual profits of stock who paid very moderate rents, having that quality of land which required a much larger proportion of labour to obtain a given result than land of a more fertile quality? If the whole rent were remitted, they would still obtain lower profits than those in other trades, and would therefore not continue to cultivate their land, unless they could raise the price of its produce. If the tax fell on the farmers, there would be fewer farmers disposed to hire farms; if it fell on the landlord, many farms would not be let at all, for they would afford no rent. But from what fund would those pay the tax who produce corn without paying any rent? It is quite clear that the tax must fall on the consumer. How would such land as M. Say describes in the following passage pay a tax of one-half or three-fourths of its produce?

"We see in Scotland poor lands thus cultivated by the proprietor, and which could be cultivated by no other person. Thus, too, we see in the interior provinces of the United States vast and fertile lands, the revenue of which, alone, would not be sufficient for the maintenance of the proprietor. These lands are cultivated nevertheless, but it must be by the proprietor himself, or, in other words, he must add to the rent, which is little or nothing, the profits of his capital and industry, to enable him to live in competence. It is well known that land, though cultivated, yields no revenue to the landlord when no farmer will be willing to pay a rent for it: which is a proof that such land will give only the profits of the capital, and of the industry necessary for its cultivation."—*Say*, vol. ii. p. 127.

## CHAPTER XVIII.

### POOR RATES.

We have seen that taxes on raw produce, and on the profits of the farmer, will fall on the consumer of raw produce; since, unless he had the power of remunerating himself by an increase of price, the tax would reduce his profits below the general level of profits, and would urge him to remove his capital to some other trade. We have seen, too, that he could not, by deducting it from his rent, transfer the tax to his landlord; because that farmer who paid no rent would, equally with the cultivator of better land, be subject to the tax, whether it were laid on raw produce or on the profits of the farmer. I have also attempted to show, that if a tax were general, and affected equally all profits, whether manufacturing or agricultural, it would not operate either on the price of goods or raw produce, but would be immediately, as well as ultimately, paid by the producers. A tax on rent, it has been observed, would fall on the landlord only, and could not by any means be made to devolve on the tenant.

The poor rate is a tax which partakes of the nature of all these taxes, and, under different circumstances, falls on the consumer of raw produce and goods, on the profits of stock, and on the rent of land. It is a tax which falls with peculiar weight on the profits of the farmer, and therefore may be considered as affecting the price of raw produce. According to the degree in which it bears on manufacturing and agricultural profits equally, it will be a general tax on the profits of stock, and will occasion no alteration in the price of raw produce and manufactures. In proportion to the farmer's inability to remunerate himself, by raising the price of raw produce, for that portion of the tax which peculiarly affects him, it will be a tax on rent, and will be paid by the landlord. To know, then, the operation of the poor rate at any particular time, we must ascertain whether at that time it affects in an equal or an unequal degree the profits of the farmer and manufacturer; and also whether the circumstances be such as to afford to the farmer the power of raising the price of raw produce.

The poor rates are professed to be levied on the farmer in proportion to his rent; and, accordingly, the farmer who paid a very

small rent, or no rent at all, should pay little or no tax. If this were true, poor rates, as far as they are paid by the agricultural class, would entirely fall on the landlord, and could not be shifted to the consumer of raw produce. But I believe that it is not true; the poor rate is not levied according to the rent which a farmer actually pays to his landlord; it is proportioned to the annual value of his land, whether that annual value be given to it by the capital of the landlord or of the tenant.

If two farmers rented land of two different qualities in the same parish, the one paying a rent of 100*l.* per annum for 50 acres of the most fertile land, and the other the same sum of 100*l.* for 1000 acres of the least fertile land, they would pay the same amount of poor rates, if neither of them attempted to improve the land; but if the farmer of the poor land, presuming on a very long lease, should be induced, at a great expense, to improve the productive powers of his land, by manuring, draining, fencing, &c., he would contribute to the poor rates, not in proportion to the actual rent paid to the landlord, but to the actual annual value of the land. The rate might equal or exceed the rent; but whether it did or not, no part of this rate would be paid by the landlord. It would have been previously calculated upon by the tenant; and if the price of produce were not sufficient to compensate him for all his expenses, together with this additional charge for poor rates, his improvements would not have been undertaken. It is evident, then, that the tax in this case is paid by the consumer; for if there had been no rate, the same improvements would have been undertaken, and the usual and general rate of profits would have been obtained on the stock employed, with a lower price of corn.

Nor would it make the slightest difference in this question, if the landlord had made these improvements himself, and had in consequence raised his rent from 100*l.* to 500*l.*; the rate would be equally charged to the consumer; for whether the landlord should expend a large sum of money on his land, would depend on the rent, or what is called rent, which he would receive as a remuneration for it; and this again would depend on the price of corn, or other raw produce, being sufficiently high not only to cover this additional rent, but also the rate to which the land would be subject. If at the same time all manufacturing capital contributed to the poor rates, in the same proportion as the capital expended by the farmer or landlord in improving the land, then it would no longer be a partial tax on the profits of the farmer's or landlord's capital, but a tax on the capital of all producers; and, therefore, it could no longer be shifted either on the consumer of raw produce or on the landlord. The farmer's profits would feel the effect of the rate no more than those of the manufacturer; and the former could not, any more than the latter, plead it as a reason for an advance in the price of his commodity. It is not the absolute, but the relative fall of profits, which prevents capital from being em-

ployed in any particular trade: it is the difference of profit which sends capital from one employment to another.

It must be acknowledged, however, that in the actual state of the poor rates, a much larger amount falls on the farmer than on the manufacturer, in proportion to their respective profits; the farmer being rated according to the actual productions which he obtains, the manufacturer only according to the value of the buildings in which he works, without any regard to the value of the machinery, labour, or stock which he may employ. From this circumstance it follows, that the farmer will be enabled to raise the price of his produce by this whole difference. For since the tax falls unequally, and peculiarly on his profits, he would have less motive to devote his capital to the land, than to employ it in some other trade, were not the price of raw produce raised. If, on the contrary, the rate had fallen with greater weight on the manufacturer than on the farmer, he would have been enabled to raise the price of his goods by the amount of the difference, for the same reason that the farmer under similar circumstances could raise the price of raw produce. In a society, therefore, which is extending its agriculture, when poor rates fall with peculiar weight on the land, they will be paid partly by the employers of capital in a diminution of the profits of stock, and partly by the consumer of raw produce in its increased price. In such a state of things, the tax may, under some circumstances, be even advantageous rather than injurious to landlords; for if the tax paid by the cultivator of the worst land, be higher in proportion to the quantity of produce obtained, than that paid by the farmers of the more fertile lands, the rise in the price of corn, which will extend to all corn, will more than compensate the latter for the tax. This advantage will remain with them during the continuance of their leases, but it will afterwards be transferred to their landlords. This, then, would be the effect of poor rates in an advancing society; but in a stationary, or in a retrograde country, so far as capital could not be withdrawn from the land, if a further rate were levied for the support of the poor, that part of it which fell on agriculture would be paid, during the current leases, by the farmers; but, at the expiration of those leases, it would almost wholly fall on the landlords. The farmer, who, during his former lease, had expended his capital in improving his land, if it were still in his own hands, would be rated for this new tax according to the new value which the land had acquired by its improvement, and this amount he would be obliged to pay during his lease, although his profits might thereby be reduced below the general rate of profits; for the capital which he has expended may be so incorporated with the land, that it cannot be removed from it. If, indeed, he or his landlord (should it have been expended by him) were able to remove this capital, and thereby reduce the annual value of the land, the rate would proportionably fall: and as the produce would at the same time be

diminished, its price would rise; he would be compensated for the tax, by charging it to the consumer, and no part would fall on rent; but this is impossible, at least with respect to some proportion of the capital, and consequently in that proportion the tax will be paid by the farmers during their leases, and by landlords at their expiration. This additional tax, if it fell with peculiar severity on manufacturers, which it does not, would, under such circumstances, be added to the price of their goods; for there can be no reason why their profits should be reduced below the general rate of profits, when their capitals might be easily removed to agriculture.*

* In a former part of this work, I have noticed the difference between rent, properly so called, and the remuneration paid to the landlord under that name, for the advantages which the expenditure of his capital has procured to his tenant; but I did not perhaps sufficiently distinguish the difference which would arise from the different modes in which this capital might be applied. As a part of this capital, when once expended in the improvement of a farm, is inseparably amalgamated with the land, and tends to increase its productive powers, the remuneration paid to the landlord for its use is strictly of the nature of rent, and is subject to all the laws of rent. Whether the improvement be made at the expense of the landlord or the tenant, it will not be undertaken in the first instance, unless there is a strong probability that the return will at least be equal to the profit that can be made by the disposition of any other equal capital; but when once made, the return obtained will ever after be wholly of the nature of rent, and will be subject to all the variations of rent. Some of these expenses, however, only give advantages to the land for a limited period, and do not add permanently to its productive powers: being bestowed on buildings, and other perishable improvements, they require to be constantly renewed, and therefore do not obtain for the landlord any permanent addition to his real rent.

## CHAPTER XIX.

### ON SUDDEN CHANGES IN THE CHANNELS OF TRADE.

A GREAT manufacturing country is peculiarly exposed to temporary reverses and contingencies, produced by the removal of capital from one employment to another. The demands for the produce of agriculture are uniform; they are not under the influence of fashion, prejudice, or caprice. To sustain life, food is necessary, and the demand for food must continue in all ages, and in all countries. It is different with manufactures; the demand for any particular manufactured commodity is subject, not only to the wants, but to the tastes and caprice of the purchasers. A new tax, too, may destroy the comparative advantage which a country before possessed in the manufacture of a particular commodity; or the effects of war may so raise the freight and insurance on its conveyance, that it can no longer enter into competition with the home manufacture of the country to which it was before exported. In all such cases, considerable distress, and no doubt some loss, will be experienced by those who are engaged in the manufacture of such commodities; and it will be felt, not only at the time of the change, but through the whole interval during which they are removing their capitals, and the labour which they can command, from one employment to another.

Nor will distress be experienced in that country alone where such difficulties originate, but in the countries to which its commodities were before exported. No country can long import, unless it also exports, or can long export unless it also imports. If, then, any circumstance should occur, which should permanently prevent a country from importing the usual amount of foreign commodities, it will necessarily diminish the manufacture of some of those commodities which were usually exported; and although the total value of the productions of the country will probably be but little altered, since the same capital will be employed, yet they will not be equally abundant and cheap; and considerable distress will be experienced through the change of employments. If, by the employment of 10,000*l.* in the manufacture of cotton goods for exportation, we imported annually 3000 pair of silk stockings of the value of 2000*l.*, and by the interruption of foreign trade we should be obliged to withdraw this capital from the manufacture of cotton,

and employ it ourselves in the manufacture of stockings, we should still obtain stockings of the value of 2000*l.*, provided no part of the capital were destroyed; but instead of having 3000 pair, we might only have 2,500. In the removal of the capital from the cotton to the stocking trade, much distress might be experienced, but it would not considerably impair the value of the national property, although it might lessen the quantity of our annual productions.*

The commencement of war after a long peace, or of peace after a long war, generally produces considerable distress in trade. It changes in a great degree the nature of the employments to which the respective capitals of countries were before devoted; and during the interval while they are settling in the situations which new circumstances have made the most beneficial, much fixed capital is unemployed, perhaps wholly lost, and labourers are without full employment. The duration of this distress will be longer or shorter, according to the strength of that disinclination which most men feel to abandon that employment of their capital to which they have long been accustomed. It is often protracted, too, by the restrictions and prohibitions to which the absurd jealousies which prevail between the different States of the commercial commonwealth give rise.

The distress which proceeds from a revulsion of trade is often mistaken for that which accompanies a diminution of the national capital and a retrograde state of society; and it would perhaps be difficult to point out any marks by which they may be accurately distinguished.

When, however, such distress immediately accompanies a change from war to peace, our knowledge of the existence of such a cause will make it reasonable to believe that the funds for the maintenance of labour have rather been diverted from their usual channel than materially impaired, and that, after temporary suffering, the nation will again advance in prosperity. It must be remembered, too, that the retrograde condition is always an unnatural state of society. Man from youth grows to manhood, then decays, and dies; but this is not the progress of nations. When arrived to a state of the greatest vigour, their further advance may indeed be arrested, but their natural tendency is to continue for ages to sustain undiminished their wealth and their population.

* "Commerce enables us to obtain a commodity in the place where it is to be found, and to convey it to another where it is to be consumed; it therefore gives us the power of increasing the value of the commodity, by the whole difference between its price in the first of these places, and its price in the second."—*M. Say*, p. 458. vol. ii.—True, but how is this additional value given to it? By adding to the cost of production, first, the expenses of conveyance; secondly, the profit on the advances of capital made by the merchant. The commodity is only more valuable, for the same reasons that every other commodity may become more valuable, because more labour is expended on its production and conveyance, before it is purchased by the consumer. This must not be mentioned as one of the advantages of commerce. When the subject is more closely examined, it will be found that the whole benefits of commerce resolve themselves into the means which it gives us of acquiring, not more valuable objects, but more useful ones.

In rich and powerful countries, where large capitals are invested in machinery, more distress will be experienced from a revulsion in trade than in poorer countries where there is proportionally a much smaller amount of fixed, and a much larger amount of circulating capital, and where consequently more work is done by the labour of men. It is not so difficult to withdraw a circulating as a fixed capital from any employment in which it may be engaged. It is often impossible to divert the machinery which may have been erected for one manufacture to the purposes of another; but the clothing, the food, and the lodging of the labourer in one employment may be devoted to the support of the labourer in another; or the same labourer may receive the same food, clothing, and lodging, whilst his employment is changed. This, however, is an evil to which a rich nation must submit; and it would not be more reasonable to complain of it than it would be in a rich merchant to lament that his ship was exposed to the dangers of the sea, whilst his poor neighbour's cottage was safe from all such hazard.

From contingencies of this kind, though in an inferior degree, even agriculture is not exempted. War, which, in a commercial country, interrupts the commerce of states, frequently prevents the exportation of corn from countries where it can be produced with little cost to others not so favourably situated. Under such circumstances an unusual quantity of capital is drawn to agriculture, and the country which before imported becomes independent of foreign aid. At the termination of the war, the obstacles to importation are removed, and a competition destructive to the home-grower commences, from which he is unable to withdraw without the sacrifice of a great part of his capital. The best policy of the State would be, to lay a tax, decreasing in amount from time to time, on the importation of foreign corn, for a limited number of years, in order to afford to the home-grower an opportunity to withdraw his capital gradually from the land.* In so doing, the country might not be making the most advantageous distribution

* In the last volume of the supplement to the Encyclopædia Britannica, article "Corn Laws and Trade," are the following excellent suggestions and observations:—"If we shall at any future period think of retracing our steps, in order to give time to withdraw capital from the cultivation of our poor soils, and to invest it in more lucrative employments, a gradually diminishing scale of duties may be adopted. The price at which foreign grain should be admitted duty free may be made to decrease from 80s., its present limit, by 4s. or 5s. per quarter annually till it reaches 50s., when the ports could safely be thrown open, and the restrictive system be for ever abolished. When this happy event shall have taken place, it will be no longer necessary to force nature. The capital and enterprise of the country will be turned into those departments of industry in which our physical situation, national character, or political institutions fit us to excel. The corn of Poland and the raw cotton of Carolina will be exchanged for the wares of Birmingham and the muslins of Glasgow. The genuine commercial spirit, that which permanently secures the prosperity of nations, is altogether inconsistent with the dark and shallow policy of monopoly. The nations of the earth are like provinces of the same kingdom—a free and unfettered intercourse is alike productive of general and of local advantage." The whole article is well worthy of attention; it is very instructive, is ably written, and shows that the author is completely master of the subject.

of its capital, but the temporary tax to which it was subjected would be for the advantage of a particular class, the distribution of whose capital was highly useful in procuring a supply of food when importation was stopped. If such exertions in a period of emergency were followed by a risk of ruin on the termination of the difficulty, capital would shun such an employment. Besides the usual profits of stock, farmers would expect to be compensated for the risk which they incurred of a sudden influx of corn; and, therefore, the price to the consumer, at the seasons when he most required a supply, would be enhanced, not only by the superior cost of growing corn at home, but also by the insurance which he would have to pay in the price for the peculiar risk to which this employment of capital was exposed. Notwithstanding, then, that it would be more productive of wealth to the country, at whatever sacrifice of capital it might be done, to allow the importation of cheap corn, it would, perhaps, be advisable to charge it with a duty for a few years.

In examining the question of rent, we found, that, with every increase in the supply of corn, and with the consequent fall of its price, capital would be withdrawn from the poorer land, and land of a better description, which would then pay no rent, would become the standard by which the natural price of corn would be regulated. At 4*l.* per quarter, land of an inferior quality, which may be designated by No. 6, might be cultivated; at 3*l.* 10s., No. 5; at 3*l.*, No. 4, and so on. If corn, in consequence of permanent abundance, fell to 3*l.* 10s., the capital employed on No. 6 would cease to be employed; for it was only when corn was at 4*l.* that it could obtain the general profits, even without paying rent: it would, therefore, be withdrawn to manufacture those commodities with which all the corn grown on No. 6 would be purchased and imported. In this employment it would necessarily be more productive to its owner, or it would not be withdrawn from the other; for if he could not obtain more corn by purchasing it with a commodity which he manufactured than he got from the land for which he paid no rent, its price could not be under 4*l.*

It has, however, been said, that capital cannot be withdrawn from the land; that it takes the form of expenses which cannot be recovered, such as manuring, fencing, draining, &c., which are necessarily inseparable from the land. This is in some degree true; but that capital which consists of cattle, sheep, hay and corn ricks, carts, &c., may be withdrawn; and it always becomes a matter of calculation whether these shall continue to be employed on the land, notwithstanding the low price of corn, or whether they shall be sold, and their value transferred to another employment.

Suppose, however, the fact to be as stated, and that no part of the capital could be withdrawn;* the farmer would continue to

* Whatever capital becomes fixed on the land must necessarily be the landlord's, and not the tenant's, at the expiration of the lease. Whatever compensation the

raise corn, and precisely the same quantity, too, at whatever price it might sell; for it could not be his interest to produce less, and if he did not so employ his capital, he would obtain from it no return whatever. Corn could not be imported, because he would sell it lower than 3*l.* 10s. rather than not sell it at all, and by the supposition the importer could not sell it under that price. Although, then, the farmers, who cultivated land of this quality, would undoubtedly be injured by the fall in the exchangeable value of the commodity which they produced,—how would the country be affected? We should have precisely the same quantity of every commodity produced, but raw produce and corn would sell at a much cheaper price. The capital of a country consists of its commodities, and as these would be the same as before, reproduction would go on at the same rate. This low price of corn would, however, only afford the usual profits of stock to the land, No. 5, which would then pay no rent, and the rent of all better land would fall: wages would also fall, and profits would rise.

However low the price of corn might fall, if capital could not be removed from the land, and the demand did not increase, no importation would take place, for the same quantity as before would be produced at home. Although there would be a different division of the produce, and some classes would be benefited and others injured, the aggregate of production would be precisely the same, and the nation collectively would neither be richer nor poorer.

But there is this advantage always resulting from a relatively low price of corn,—that the division of the actual production is more likely to increase the fund for the maintenance of labour, inasmuch as more will be allotted, under the name of profit, to the productive class,—a less, under the name rent, to the unproductive class.

This is true, even if the capital cannot be withdrawn from the land, and must be employed there, or not be employed at all; but if great part of the capital can be withdrawn, as it evidently could, it will be only withdrawn when it will yield more to the owner by being withdrawn than by being suffered to remain where it was; it will only be withdrawn then, when it can elsewhere be employed more productively both for the owner and the public. He consents to sink that part of his capital which cannot be separated from the

landlord may receive for this capital on re-letting his land, will appear in the form of rent; but no rent will be paid if, with a given capital, more corn can be obtained from abroad than can be grown on this land at home. If the circumstances of the society should require corn to be imported, and 1000 quarters can be obtained by the employment of a given capital, and if this land, with the employment of the same capital, will yield 1,100 quarters, 100 quarters will necessarily go to rent; but if 1,200 can be got from abroad, then this land will go out of cultivation, for it will not then yield even the general rate of profit. But this is no disadvantage, however great the capital may have been that had been expended on the land. Such capital is spent with a view to augment the produce—that, it should be remembered, is the end; of what importance, then, can it be to the society, whether half its capital be sunk in value, or even annihilated, if they obtain a greater annual quantity of production? Those who deplore the loss of capital in this case, are for sacrificing the end to the means.

land, because with that part which he can take away he can obtain a greater value, and a greater quantity of raw produce, than by not sinking this part of the capital. His case is precisely similar to that of a man who has erected machinery in his manufactory at a great expense, machinery which is afterwards so much improved upon by more modern inventions that the commodities manufactured by him very much sink in value. It would be entirely a matter of calculation with him whether he should abandon the old machinery, and erect the more perfect, *losing all the value of the old*, or continue to avail himself of its comparatively feeble powers. Who, under such circumstances, would exhort him to forego the use of the better machinery, because it would deteriorate or annihilate the value of the old? Yet, this is the argument of those who would wish us to prohibit the importation of corn, because it will deteriorate or annihilate that part of the capital of the farmer which is for ever sunk in land. They do not see that the end of all commerce is to increase production, and that, by increasing production, though you may occasion partial loss, you increase the general happiness. To be consistent, they should endeavour to arrest all improvements in agriculture and manufactures, and all inventions of machinery; for, though these contribute to general abundance, and therefore to the general happiness, they never fail, at the moment of their introduction, to deteriorate or annihilate the value of a part of the existing capital of farmers and manufacturers.*

Agriculture, like all other trades, and particularly in a commercial country, is subject to a reaction, which, in an opposite direction, succeeds the action of a strong stimulus. Thus, when war interrupts the importation of corn, its consequent high price attracts capital to the land, from the large profits which such an employment of it affords; this will probably cause more capital to be employed, and more raw produce to be brought to market than the demands of the country require. In such case, the price of corn will fall from the effects of a glut, and much agricultural distress will be produced, till the average supply is brought to a level with the average demand.

* Among the most able of the publications on the impolicy of restricting the Importation of Corn may be classed Major Torrens' Essay on the External Corn Trade. His arguments appear to me to be unanswered, and to be unanswerable.

## CHAPTER XX.

### VALUE AND RICHES, THEIR DISTINCTIVE PROPERTIES.

"A MAN is rich or poor," says Adam Smith, "according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life."

Value, then, essentially differs from riches, for value depends not on abundance, but on the difficulty or facility of production. The labour of a million of men in manufactures will always produce the same value, but will not always produce the same riches. By the invention of machinery, by improvements in skill, by a better division of labour, or by the discovery of new markets, where more advantageous exchanges may be made, a million of men may produce double, or treble the amount of riches, of "necessaries, conveniences, and amusements," in one state of society, that they could produce in another, but they will not on that account add any thing to value; for every thing rises or falls in value, in proportion to the facility or difficulty of producing it, or, in other words, in proportion to the quantity of labour employed on its production. Suppose, with a given capital, the labour of a certain number of men produced 1000 pair of stockings, and that by inventions in machinery, the same number of men can produce 2000 pair, or that they can continue to produce 1000 pair, and can produce besides 500 hats; then the value of the 2000 pair of stockings, or of the 1000 pair of stockings and 500 hats, will be neither more nor less than that of the 1000 pair of stockings before the introduction of machinery; for they will be the produce of the same quantity of labour. But the value of the general mass of commodities will nevertheless be diminished; for, although the value of the increased quantity produced in consequence of the improvement will be the same exactly as the value would have been of the less quantity that would have been produced, had no improvement taken place, an effect is also produced on the portion of goods still unconsumed, which were manufactured previously to the improvement; the value of those goods will be reduced, inasmuch as they must fall to the level, quantity for quantity, of the goods produced under all the advantages of the improvement: and the society will, notwithstanding the increased quantity of commodities, notwithstanding its augmented riches, and its augmented means of

enjoyment, have a less amount of value. (By constantly increasing the facility of production, we constantly diminish the value of some of the commodities before produced, though by the same means we not only add to the national riches, but also to the power of future production.) (Many of the errors in political economy have arisen from errors on this subject, from considering an increase of riches, and an increase of value, as meaning the same thing, and from unfounded notions as to what constituted a standard measure of value.) One man considers money as a standard of value, and a nation grows richer or poorer, according to him, in proportion as its commodities of all kinds can exchange for more or less money. Others represent money as a very convenient medium for the purpose of barter, but not as a proper measure by which to estimate the value of other things; the real measure of value according to them is corn,* and a country is rich or poor, according as its commodities will exchange for more or less corn.† There are others again, who consider a country rich or poor, according to the quantity of labour that it can purchase. But why should gold, or corn, or labour, be the standard measure of value, more than coals or iron?—more than cloth, soap, candles, and the other necessaries of the labourer?—why, in short, should any commodity, or all commodities together, be the standard, when such a standard is itself subject to fluctuations in value? Corn, as well as gold, may from difficulty or facility of production, vary 10, 20, or 30 per cent., relatively to other things; why should we always say, that it is those other things which have varied, and not the corn? That commodity is alone invariable, which at all times requires the same sacrifice of toil and labour to produce it. Of such a commodity we have no knowledge, but we may hypothetically argue and speak about it as if we had; and may improve our knowledge of the science, by showing distinctly the absolute inapplicability of all the standards which have been hitherto adopted. But supposing either of these to be a correct standard of value, still it would not be a standard of riches, for riches do not depend on value. A man is rich or poor, according to the abundance of necessaries and luxuries which he can command; and whether the exchangeable value of these for money, for corn, or for labour, be high or low, they will equally contribute to the enjoyment of their possessor. It is through confounding the ideas of value and wealth, or riches, that it has been asserted, that by diminishing the

* Adam Smith says, "that the difference between the real and the nominal price of commodities and labour is not a matter of mere speculation, but may sometimes be of considerable use in practice." I agree with him; but the real price of labour and commodities is no more to be ascertained by their price in goods, Adam Smith's real measure, than by their price in gold and silver, his nominal measure. The labourer is only paid a really high price for his labour when his wages will purchase the produce of a great deal of labour.

† In vol. i. p. 108, M. Say infers, that silver is now of the same value as in the reign of Louis XIV., "because the same quantity of silver will buy the same quantity of corn."

quantity of commodities, that is to say, of the necessaries, conveniences, and enjoyments of human life, riches may be increased. If value were the measure of riches, this could not be denied, because by scarcity the value of commodities is raised; but if Adam Smith be correct, if riches consist in necessaries and enjoyments, then they cannot be increased by a diminution of quantity.

It is true, that the man in possession of a scarce commodity is richer, if by means of it he can command more of the necessaries and enjoyments of human life; but as the general stock out of which each man's riches are drawn is diminished in quantity, by all that any individual takes from it, other men's shares must necessarily be reduced in proportion as this favoured individual is able to appropriate a greater quantity to himself.

Let water become scarce, says Lord Lauderdale, and be exclusively possessed by an individual, and you will increase his riches, because water will then have value; and if wealth be the aggregate of individual riches, you will by the same means also increase wealth. You undoubtedly will increase the riches of this individual, but inasmuch as the farmer must sell a part of his corn, the shoemaker a part of his shoes, and all men give up a portion of their possessions for the sole purpose of supplying themselves with water, which they before had for nothing, they are poorer by the whole quantity of commodities which they are obliged to devote to this purpose, and the proprietor of water is benefited precisely by the amount of their loss. The same quantity of water, and the same quantity of commodities, are enjoyed by the whole society, but they are differently distributed. This is, however, supposing rather a monopoly of water than a scarcity of it. If it should be scarce, then the riches of the country and of individuals would be actually diminished, inasmuch as it would be deprived of a portion of one of its enjoyments. The farmer would not only have less corn to exchange for the other commodities which might be necessary or desirable to him, but he, and every other individual, would be abridged in the enjoyment of one of the most essential of their comforts. Not only would there be a different distribution of riches, but an actual loss of wealth.

(It may be said, then, of two countries possessing precisely the same quantity of all the necessaries and comforts of life, that they are equally rich, but the value of their respective riches would depend on the comparative facility or difficulty with which they were produced.) For if an improved piece of machinery should enable us to make two pair of stockings instead of one, without additional labour, double the quantity would be given in exchange for a yard of cloth. If a similar improvement be made in the manufacture of cloth, stockings and cloth will exchange in the same proportions as before, but they will both have fallen in value; for in exchanging them for hats, for gold, or other commodities in general, twice the former quantity must be given. Extend the

improvement to the production of gold, and every other commodity, and they will all regain their former proportions. There will be double the quantity of commodities annually produced in the country, and therefore the wealth of the country will be doubled, but this wealth will not have increased in value.

Although Adam Smith has given the correct description of riches which I have more than once noticed, he afterwards explains them differently, and says, "that a man must be rich or poor according to the quantity of labour which he can afford to purchase." Now, this description differs essentially from the other, and is certainly incorrect; for suppose the mines were to become more productive, so that gold and silver fell in value, from the greater facility of their production; or that velvets were to be manufactured with so much less labour than before, that they fell to half their former value; the riches of all those who purchased those commodities would be increased; one man might increase the quantity of his plate, another might buy double the quantity of velvet; but with the possession of this additional plate and velvet, they could employ no more labour than before; because, as the exchangeable value of velvet and of plate would be lowered, they must part with proportionally more of these species of riches to purchase a day's labour. Riches, then, cannot be estimated by the quantity of labour which they can purchase.

From what has been said, it will be seen that the wealth of a country may be increased in two ways: it may be increased by employing a greater portion of revenue in the maintenance of productive labour, which will not only add to the quantity, but to the value of the mass of commodities; or it may be increased, without employing any additional quantity of labour, by making the same quantity more productive, which will add to the abundance, but not to the value of commodities.

In the first case, a country would not only become rich, but the value of its riches would increase. It would become rich by parsimony,—by diminishing its expenditure on objects of luxury and enjoyment, and employing those savings in reproduction.

In the second case, there will not necessarily be either any diminished expenditure on luxuries and enjoyments, or any increased quantity of productive labour employed, but, with the same labour, more would be produced; wealth would increase, but not value. Of these two modes of increasing wealth, the last must be preferred, since it produces the same effect without the privation and diminution of enjoyments which can never fail to accompany the first mode. Capital is that part of the wealth of a country which is employed with a view to future production, and may be increased in the same manner as wealth. An additional capital will be equally efficacious in the production of future wealth, whether it be obtained from improvements in skill and machinery, or from using more revenue reproductively; for wealth always depends on the quantity

of commodities produced, without any regard to the facility with which the instruments employed in production may have been procured. A certain quantity of clothes and provisions will maintain and employ the same number of men, and will therefore procure the same quantity of work to be done, whether they be produced by the labour of 100 or 200 men; but they will be of twice the value if 200 have been employed on their production.

M. Say, notwithstanding the corrections he has made in the fourth and last edition of his work, "Traité d'Economie Politique," appears to me to have been singularly unfortunate in his definition of riches and value. He considers these two terms as synonymous, and that a man is rich in proportion as he increases the value of his possessions, and is enabled to command an abundance of commodities. "The value of incomes is then increased," he observes, "if they can procure, it does not signify by what means, a greater quantity of products." According to M. Say, if the difficulty of producing cloth were to double, and consequently cloth was to exchange for double the quantity of the commodities for which it is exchanged before, it would be doubled in value, to which I give my fullest assent; but if there were any peculiar facility in producing the commodities, and no increased difficulty in producing cloth, and cloth should in consequence exchange as before for double the quantity of commodities, M. Say would still say that cloth had doubled in value, whereas, according to my view of the subject, he should say, that cloth retained its former value, and those particular commodities had fallen to half their former value. Must not M. Say be inconsistent with himself when he says, that, by facility of production, two sacks of corn may be produced by the same means that one was produced before, and that each sack will therefore fall to half its former value, and yet maintain that the clothier who exchanges his cloth for two sacks of corn will obtain double the value he before obtained, when he could only get one sack in exchange for his cloth. If two sacks be of the value that one was of before, he evidently obtains the same value and no more,—he gets, indeed, double the quantity of riches—double the quantity of utility—double the quantity of what Adam Smith calls value in use, but not double the quantity of value, and therefore M. Say cannot be right in considering value, riches, and utility to be synonymous. Indeed, there are many parts of M. Say's work to which I can confidently refer in support of the doctrine which I maintain respecting the essential difference between value and riches, although it must be confessed that there are also various other passages in which a contrary doctrine is maintained. These passages I cannot reconcile, and I point them out by putting them in opposition to each other, that M. Say may, if he should do me the honour to notice these observations in any future edition of his work, give such explanations of his views as may remove

the difficulty which many others, as well as myself, feel in our endeavours to expound them.

1. In the exchange of two products, we only in fact exchange the productive services which have served to create them,..... p. 504
2. There is no real dearness but that which arises from the cost of production. A thing really dear, is that which costs much in producing,.....497
3. The value of all the productive services that must be consumed to create a product, constitute the cost of production of that product,.....505
4. It is utility which determines the demand for a commodity, but it is the cost of its production which limits the extent of its demand. When its utility does not elevate its value to the level of the cost of production, the thing is not worth what it cost; it is a proof that the productive services might be employed to create a commodity of a superior value. The possessors of productive funds, that is to say, those who have the disposal of labour, of capital or land, are perpetually occupied in comparing the cost of production with the value of the things produced, or, which comes to the same thing, in comparing the value of different commodities with each other; because the cost of production is nothing else but the value of productive services, consumed in forming a production; and the value of a productive service is nothing else than the value of the commodity, which is the result. The value of a commodity, the value of a productive service, the value of the cost of production, are all, then, similar values, when every thing is left to its natural course.
5. The value of incomes is then increased, if they can procure (it does not signify by what means) a greater quantity of products.
6. Price is the measure of the value of things, and their value is the measure of their utility. 2 Vol..... p. 4
7. Exchanges made freely, show at the time, in the place, and in the state of society in which we are, the value which men attach to the things exchanged,.....466
8. To produce, is to create value, by giving or increasing the utility of a thing, and thereby establishing a demand for it, which is the first cause of its value. Vol. 2,.....487
9. Utility being created, constitutes a product. The exchangeable value which results, is only the measure of this utility, the measure of the production which has taken place, p. 490
10. The utility which people of a particular country find in a product, can no otherwise be appreciated than by the price which they give for it,.....502
11. This price is the measure of the utility, which it has in the judgment of men; of the satisfaction which they derive from consuming it, because they would not prefer consuming this utility, if for the price which it cost they could acquire a utility which would give them more satisfaction,.....506
12. The quantity of all other commodities which a person can immediately obtain in exchange for the commodity of which he wishes to dispose, is at all times a value not to be disputed. Vol. 2,.....4

If there is no real dearness but that which arises from cost of production, (*see* 2.) how can a commodity be said to rise in value, (*see* 5.) if its cost of production be not increased? and merely because it will exchange for more of a cheap commodity—for more of a commodity the cost of production of which has diminished? When I give 2000 times more cloth for a pound of gold than I give for a pound of iron, does it prove that I attach 2000 times more utility to gold than I do to iron? certainly not; it proves only as admitted by M. Say, (*see* 4.) that the cost of production of gold is 2000 times greater than the cost of production of iron. If the cost of production of the two metals were the same, I should give the same price for them; but if utility were the measure of value, it is

probable I should give more for the iron. It is the competition of the producers "who are perpetually employed in comparing the cost of production with the value of the thing produced," (*see* 4.) which regulates the value of different commodities. If, then, I give one shilling for a loaf, and 21 shillings for a guinea, it is no proof that this in my estimation is the comparative measure of their utility.

In No. 4, M. Say maintains, with scarcely any variation, the doctrine which I hold concerning value. In his productive services, he includes the services rendered by land, capital, and labour; in mine I include only capital and labour, and wholly exclude land. Our difference proceeds from the different view which we take of rent: I always consider it as the result of a partial monopoly, never really regulating price, but rather as the effect of it. If all rent were relinquished by landlords, I am of opinion, that the commodities produced on the land would be no cheaper, because there is always a portion of the same commodities produced on land, for which no rent is or can be paid, as the surplus produce is only sufficient to pay the profits of stock.

To conclude, although no one is more disposed than I am to estimate highly the advantage which results to all classes of consumers, from the real abundance and cheapness of commodities, I cannot agree with M. Say, in estimating the value of a commodity, by the abundance of other commodities for which it will exchange; I am of the opinion of a very distinguished writer, M. Destutt de Tracy, who says, that "To measure any one thing is to compare it with a determinate quantity of that same thing which we take for a standard of comparison, for unity. To measure, then, to ascertain a length, a weight, a value, is to find how many times they contain metres, grammes, francs, in a word, unities of the same description." A franc is not a measure of value for any thing, but for a quantity of the same metal of which francs are made, unless francs, and the thing to be measured, can be referred to some other measure which is common to both. This, I think, they can be, for they are both the result of labour; and, therefore, labour is a common measure, by which their real as well as their relative value may be estimated. This also, I am happy to say, appears to be M. Destutt de Tracy's opinion.* He says, "as it is certain that our physical and moral faculties are alone our original riches, the employment of those faculties, labour of some kind, is our only original treasure, and that it is always from this employment that all those things are created which we call riches, those which are the most necessary as well as those which are the most purely agreeable. It is certain too, that all those things only represent the labour which has created them,

* Elemens d'Ideologie, vol. iv. p. 99.—In this work M. de Tracy has given a useful and an able treatise on the general principles of Political Economy, and I am sorry to be obliged to add, that he supports, by his authority, the definitions which M. Say has given of the words "value," "riches," and "utility."

and if they have a value, or even two distinct values, they can only derive them from that of the labour from which they emanate."

M. Say, in speaking of the excellences and imperfections of the great work of Adam Smith, imputes to him, as an error, that "he attributes to the labour of man alone, the power of producing value. A more correct analysis shows us that value is owing to the action of labour, or rather the industry of man, combined with the action of those agents which nature supplies, and with that of capital. His ignorance of this principle prevented him from establishing the true theory of the influence of machinery in the production of riches."

In contradiction to the opinion of Adam Smith, M. Say, in the fourth chapter, speaks of the value which is given to commodities by natural agents, such as the sun, the air, the pressure of the atmosphere, &c., which are sometimes substituted for the labour of man, and sometimes concur with him in producing.* But these natural agents, though they add greatly to *value in use*, never add exchangeable value, of which M. Say is speaking, to a commodity: as soon as by the aid of machinery, or by the knowledge of natural philosophy, you oblige natural agents to do the work which was before done by man, the exchangeable value of such work falls accordingly. If ten men turned a corn mill, and it be discovered that by the assistance of wind, or of water, the labour of these ten men may be spared, the flour which is the produce partly of the work performed by the mill, would immediately fall in value, in proportion to the quantity of labour saved; and the society would be richer by the commodities which the labour of the ten men could produce, the funds destined for their maintenance being in no degree impaired. M. Say constantly overlooks the essential difference that there is between value in use, and value in exchange.

M. Say accuses Dr Smith of having overlooked the value which is given to commodities by natural agents, and by machinery, because he considered that the value of all things was derived from the labour of man; but it does not appear to me that this charge is made out; for Adam Smith nowhere undervalues the services which these natural agents and machinery perform for us, but he

* "The first man who knew how to soften metals by fire, is not the creator of the value which that process adds to the melted metal. That value is the result of the physical action of fire added to the industry and capital of those who availed themselves of this knowledge."

"From this error Smith has drawn this false result, that the value of all productions represents the recent or former labour of man, *or, in other words, that riches are nothing else but accumulated labour; from which, by a second consequence, equally false, labour is the sole measure of riches, or of the value of productions.*"—Chap. iv. p. 31. The inferences with which M. Say concludes, are his own, and not Dr Smith's; they are correct if no distinction be made between value and riches, and in this passage M. Say makes none: but though Adam Smith, who defined riches to consist in the abundance of necessaries, convenience and enjoyments of human life, would have allowed that machines and natural agents might very greatly add to the riches of a country, he would not have allowed that they add anything to the value of those riches

very justly distinguishes the nature of the [illegible] which they add to commodities—they are serviceable to us, [illegible]reasing the abundance of productions, by making men richer, [illegible] adding to value in use; but as they perform their work gratuitously, as nothing is paid for the use of air, of heat, and of water, the assistance which they afford us, adds nothing to value in exchange.

## CHAPTER XXI.

### EFFECTS OF ACCUMULATION ON PROFITS AND INTEREST.

From the account which has been given of the profits of stock, it will appear that no accumulation of capital will permanently lower profits, unless there be some permanent cause for the rise of wages. If the funds for the maintenance of labour were doubled, trebled, or quadrupled, there would not long be any difficulty in procuring the requisite number of hands, to be employed by those funds; but owing to the increasing difficulty of making constant additions to the food of the country, funds of the same value would probably not maintain the same quantity of labour. If the necessaries of the workman could be constantly increased with the same facility, there could be no permanent alteration in the rate of profit or wages, to whatever amount capital might be accumulated. Adam Smith, however, uniformly ascribes the fall of profits to the accumulation of capital, and to the competition which will result from it, without ever adverting to the increasing difficulty of providing food for the additional number of labourers which the additional capital will employ. "The increase of stock," he says, "which raises wages, tends to lower profit. When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit; and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in all." Adam Smith speaks here of a rise of wages, but it is of a temporary rise, proceeding from increased funds before the population is increased; and he does not appear to see, that at the same time that capital is increased, the work to be effected by capital is increased in the same proportion. M. Say has, however, most satisfactorily shown, that there is no amount of capital which may not be employed in a country, because demand is only limited by production. No man produces but with a view to consume or sell, and he never sells but with an intention to purchase some other commodity, which may be immediately useful to him, or which may contribute to future production. By producing, then, he necessarily becomes either the consumer of his own goods, or the purchaser and consumer of the goods of some other person. It is not to be supposed that he should, for any length of time, be ill-informed of the commodities which he can most ad-

vantageously produce, to attain the object which he has in view, namely, the possession of other goods; and, therefore, it is not probable that he will continually produce a commodity for which there is no demand.*

There cannot, then, be accumulated in a country any amount of capital which cannot be employed productively, until wages rise so high in consequence of the rise of necessaries, and so little consequently remains for the profits of stock, that the motive for accumulation ceases.† While the profits of stock are high, men will have a motive to accumulate. Whilst a man has any wished-for gratification unsupplied, he will have a demand for more commodities; and it will be an effectual demand while he has any new value to offer in exchange for them. If ten thousand pounds were given to a man having 100,000*l.* per annum, he would not lock it up in a chest, but would either increase his expenses by 10,000*l.*; employ it himself productively, or lend it to some other person for that purpose; in either case, demand would be increased, although it would be for different objects. If he increased his expenses, his effectual demand might probably be for buildings, furniture, or some such enjoyment. If he employed his 10,000*l.* productively, his effectual demand would be for food, clothing, and raw material, which might set new labourers to work; but still it would be demand.‡

* Adam Smith speaks of Holland, as affording an instance of the fall of profits from the accumulation of capital, and from every employment being consequently overcharged. "The government there borrow at 2 per cent., and private people of good credit, at 3 per cent." But it should be remembered, that Holland was obliged to import almost all the corn which she consumed, and by imposing heavy taxes on the necessaries of the labourer, she further raised the wages of labour. These facts will sufficiently account for the low rate of profits and interest in Holland.

† Is the following quite consistent with M. Say's principle? "The more disposable capitals are abundant in proportion to the extent of employment for them, the more will the rate of interest on loans of capital fall."—Vol. ii. p. 108. If capital to any extent can be employed by a country, how can it be said to be abundant, compared with the extent of employment for it?

‡ Adam Smith says, that "When the produce of any particular branch of industry exceeds what the demand of the country requires, the surplus must be sent abroad, and exchanged for something for which there is a demand at home. *Without such exportation, a part of the productive labour of the country must cease, and the value of its annual produce diminish.* The land and labour of Great Britain produce generally more corn, woollens, and hardware, than the demand of the home market requires. The surplus part of them, therefore, must be sent abroad, and exchanged for something for which there is a demand at home. It is only by means of such exportation that this surplus can acquire a value sufficient to compensate the labour and expense of producing it." One would be led to think by the above passage, that Adam Smith concluded we were under some necessity of producing a surplus of corn, woollen goods, and hardware, and that the capital which produced them could not be otherwise employed. It is, however, always a matter of choice in what way a capital shall be employed, and therefore there can never for any length of time be a surplus of any commodity; for if there were, it would fall below its natural price, and capital would be removed to some more profitable employment. No writer has more satisfactorily and ably shown than Dr Smith the tendency of capital to move from employments in which the goods produced do not repay by their price the whole expenses, including the ordinary profits, of producing and bringing them to market.—See Chap. x. Book i.

Productions are always bought by productions, or by services; money is only the medium by which the exchange is effected. Too much of a particular commodity may be produced, of which there may be such a glut in the market as not to repay the capital expended on it; but this cannot be the case with respect to all commodities; the demand for corn is limited by the mouths which are to eat it, for shoes and coats by the persons who are to wear them; but though a community, or a part of a community, may have as much corn, and as many hats and shoes as it is able, or may wish to consume, the same cannot be said of every commodity produced by nature or by art. Some would consume more wine if they had the ability to procure it. Others, having enough of wine, would wish to increase the quantity or improve the quality of their furniture. Others might wish to ornament their grounds, or to enlarge their houses. The wish to do all or some of these is implanted in every man's breast; nothing is required but the means, and nothing can afford the means but an increase of production. If I had food and necessaries at my disposal, I should not be long in want of workmen who would put me in possession of some of the objects most useful or most desirable to me.

Whether these increased productions, and the consequent demand which they occasion, shall or shall not lower profits, depends solely on the rise of wages; and the rise of wages, excepting for a limited period, on the facility of producing the food and necessaries of the labourer. I say excepting for a limited period, because no point is better established, than that the supply of labourers will always ultimately be in proportion to the means of supporting them.

There is only one case, and that will be temporary, in which the accumulation of capital with a low price of food may be attended with a fall of profits; and that is, when the funds for the maintenance of labour increase much more rapidly than population;—wages will then be high, and profits low. If every man were to forego the use of luxuries, and be intent only on accumulation, a quantity of necessaries might be produced, for which there could not be any immediate consumption. Of commodities so limited in number, there might undoubtedly be a universal glut, and consequently there might neither be demand for an additional quantity of such commodities, nor profits on the employment of more capital. If men ceased to consume, they would cease to produce. This admission does not impugn the general principle. In such a country as England, for example, it is difficult to suppose that there can be any disposition to devote the whole capital and labour of the country to the production of necessaries only.

When merchants engage their capitals in foreign trade, or in the carrying trade, it is always from choice, and never from necessity: it is because in that trade their profits will be somewhat greater than in the home trade.

Adam Smith has justly observed "that the desire of food is

limited in every man by the narrow capacity of the human stomach, but the desire of the conveniences and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary." Nature, then, has necessarily limited the amount of capital which can at any one time be profitably engaged in agriculture, but she has placed no limits to the amount of capital that may be employed in procuring "the conveniences and ornaments" of life. To procure these gratifications in the greatest abundance is the object in view, and it is only because foreign trade, or the carrying trade, will accomplish it better, that men engage in them in preference to manufacturing the commodities required, or a substitute for them, at home. If, however, from peculiar circumstances, we were precluded from engaging capital in foreign trade, or in the carrying trade, we should, though with less advantage, employ it at home; and while there is no limit to the desire of "conveniences, ornaments of building, dress, equipage, and household furniture," there can be no limit to the capital that may be employed in procuring them, except that which bounds our power to maintain the workmen who are to produce them.

Adam Smith, however, speaks of the carrying trade as one not of choice, but of necessity; as if the capital engaged in it would be inert if not so employed, as if the capital in the home trade could overflow, if not confined to a limited amount. He says, "when the capital stock of any country is increased to such a degree *that it cannot be all employed in supplying the consumption, and supporting the productive labour of that particular country*, the surplus part of it naturally disgorges itself into the carrying trade, and is employed in performing the same offices to other countries."

"About ninety-six thousand hogsheads of tobacco are annually purchased with a part of the surplus produce of British industry. But the demand of Great Britain does not require, perhaps, more than fourteen thousand. If the remaining eighty-two thousand, therefore, could not be sent abroad *and exchanged for something more in demand at home*, the importation of them would cease immediately, *and with it the productive labour of all the inhabitants of Great Britain, who are at present employed in preparing the goods with which these eighty-two thousand hogsheads are annually purchased*." But could not this portion of the productive labour of Great Britain be employed in preparing some other sort of goods, with which something more in demand at home might be purchased? And if it could not, might we not employ this productive labour, though with less advantage, in making those goods in demand at home, or at least some substitute for them? If we wanted velvets, might we not attempt to make velvets; and if we could not succeed, might we not make more cloth, or some other object desirable to us?

We manufacture commodities, and with them buy goods abroad, because we can obtain a greater quantity than we could make at home. Deprive us of this trade, and we immediately manufacture

again for ourselves. But this opinion of Adam Smith is at variance with all his general doctrines on this subject. "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. *The general industry of the country being always in proportion to the capital which employs it*, will not thereby be diminished, but only left to find out the way in which it can be employed with the greatest advantage."

Again. "Those, therefore, who have the command of more food than they themselves can consume, are always willing to exchange the surplus, or, what is the same thing, the price of it, for gratifications of another kind. What is over and above satisfying the limited desire, is given for the amusement of those desires which cannot be satisfied, but seem to be altogether endless. The poor, in order to obtain food, exert themselves to gratify those fancies of the rich; and to obtain it more certainly, they vie with one another in the cheapness and perfection of their work. The number of workmen increases with the increasing quantity of food, or with the growing improvement and cultivation of the lands; and as the nature of their business admits of the utmost subdivisions of labours, the quantity of materials which they can work up increases in a much greater proportion than their numbers. Hence arises a demand for every sort of material which human invention can employ, either usefully or ornamentally, in building, dress, equipage, or household furniture; for the fossils and minerals contained in the bowels of the earth, the precious metals, and the precious stones."

It follows, then, from these admissions, that there is no limit to demand—no limit to the employment of capital while it yields any profit, and that however abundant capital may become, there is no other adequate reason for a fall of profit but a rise of wages, and further, it may be added that the only adequate and permanent cause for the rise of wages is the increasing difficulty of providing food and necessaries for the increasing number of workmen.

Adam Smith has justly observed, that it is extremely difficult to determine the rate of the profits of stock. "Profit is so fluctuating, that even in a particular trade, and much more in trades in general, it would be difficult to state the average rate of it. To judge of what it may have been formerly, or in remote periods of time, with any degree of precision, must be altogether impossible." Yet since it is evident that much will be given for the use of money, when much can be made by it, he suggests that "the market rate of interest will lead us to form some notion of the rate of profits, and the history of the progress of interest afford us that of the progress of profits." Undoubtedly, if the market rate of interest could be accurately known for any considerable period, we should have a tolerably correct criterion, by which to estimate the progress of profits.

But in all countries, from mistaken notions of policy, the State

has interfered to prevent a fair and free market rate of interest, by imposing heavy and ruinous penalties on all those who shall take more than the rate fixed by law. In all countries probably these laws are evaded, but records give us little information on this head, and point out rather the legal and fixed rate, than the market rate of interest. During the present war, Exchequer and Navy Bills have been frequently at so high a discount, as to afford the purchasers of them 7, 8 per cent., or a greater rate of interest for their money. Loans have been raised by Government at an interest exceeding 6 per cent., and individuals have been frequently obliged, by indirect means, to pay more than 10 per cent. for the interest of money; yet during this same period the legal rate of interest has been uniformly at 5 per cent. Little dependence for information, then, can be placed on that which is the fixed and legal rate of interest, when we find it may differ so considerably from the market rate. Adam Smith informs us, that from the 37th of Henry VIII. to 21st of James I., 10 per cent. continued to be the legal rate of interest. Soon after the Restoration, it was reduced to 6 per cent., and by the 12th of Anne, to 5 per cent. He thinks the legal rate followed, and did not precede the market rate of interest. Before the American war, Government borrowed at 3 per cent., and the people of credit in the capital, and in many other parts of the kingdom at $3\frac{1}{2}$, 4. and $4\frac{1}{2}$ per cent.

The rate of interest, though ultimately and permanently governed by the rate of profit, is, however, subject to temporary variations from other causes. With every fluctuation in the quantity and value of money, the prices of commodities naturally vary. They vary also, as we have already shown, from the alteration in the proportion of supply to demand, although there should not be either greater facility or difficulty of production. When the market prices of goods fall from an abundant supply, from a diminished demand, or from a rise in the value of money, a manufacturer naturally accumulates an unusual quantity of finished goods, being unwilling to sell them at very depressed prices. To meet his ordinary payments, for which he used to depend on the sale of his goods, he now endeavours to borrow on credit, and is often obliged to give an increased rate of interest. This, however, is but of temporary duration: for either the manufacturer's expectations were well grounded, and the market price of his commodities rises, or he discovers that there is a permanently diminished demand, and he no longer resists the course of affairs: prices fall, and money and interest regain their real value. If, by the discovery of a new mine, by the abuses of banking, or by any other cause, the quantity of money be greatly increased, its ultimate effect is to raise the prices of commodities in proportion to the increased quantity of money; but there is probably always an interval, during which some effect is produced on the rate of interest.

The price of funded property is not a steady criterion by which to judge of the rate of interest. In time of war, the stock market

is so loaded by the continual loans of Government, that the price of stock has not time to settle at its fair level, before a new operation of funding takes place, or it is affected by anticipation of political events. In time of peace, on the contrary, the operations of the sinking fund, the unwillingness which a particular class of persons feel to divert their funds to any other employment than that to which they have been accustomed, which they think secure, and in which their dividends are paid with the utmost regularity, elevates the price of stock, and consequently depresses the rate of interest on these securities below the general market rate. It is observable, too, that for different securities, Government pays very different rates of interest. Whilst 100*l.* capital in 5 per cent. stock is selling for 95*l.*, an exchequer bill of 100*l.* will be sometimes selling for 100*l.* 5s., for which exchequer bill no more interest will be annually paid than 4*l.* 11s. 3d.: one of these securities pays to a purchaser, at the above prices, an interest of more than $5\frac{1}{4}$ per cent., the other but little more than $4\frac{1}{4}$; a certain quantity of these exchequer bills is required as a safe and marketable investment for bankers; if they were increased much beyond this demand, they would probably be as much depreciated as the 5 per cent. stock. A stock paying 3 per cent. per annum will always sell at a proportionally greater price than stock paying 5 per cent., for the capital debt of neither can be discharged but at par, or 100*l.* money for 100*l.* stock. The market rate of interest may fall to 4 per cent., and Government would then pay the holder of 5 per cent. stock at par, unless he consented to take 4 per cent. on some diminished rate of interest under 5 per cent.: they would have no advantage from so paying the holder of 3 per cent. stock, till the market rate of interest had fallen below 3 per cent. per annum. To pay the interest on the national debt, large sums of money are withdrawn from circulation four times in the year for a few days. These demands for money being only temporary, seldom affect prices; they are generally surmounted by the payment of a large rate of interest.*

* "All kinds of public loans," observes M. Say, "are attended with the inconvenience of withdrawing capital, or portions of capital, from productive employments, to devote them to consumption; and when they take place in a country, *the Government of which does not inspire much confidence*, they have the further inconvenience of raising the interest of capital. Who would lend at 5 per cent. per annum to agriculture, to manufacturers, and to commerce, when a borrower may be found ready to pay an interest of 7 or 8 per cent.? That sort of income, which is called profit of stock, would rise then at the expense of the consumer. Consumption would be reduced by the rise in the price of produce; and the other productive services would be less in demand, less well paid. The whole nation, capitalists excepted, would be the sufferers from such a state of things." To the question, "who would lend money to farmers, manufacturers, and merchants, at 5 per cent. per annum, when another borrower, having little credit, would give 7 or 8?" I reply, that every prudent and reasonable man would. Because the rate of interest is 7 or 8 per cent. there, where the lender runs extraordinary risk, is this any reason that it should be equally high in those places where they are secured from such risks? M. Say allows, that the rate of interest depends on the rate of profits; but it does not therefore follow, that the rate of profits depends on the rate of interest. One is the cause, the other the effect, and it is impossible for any circumstances to make them change places.

## CHAPTER XXII.

### BOUNTIES ON EXPORTATION, AND PROHIBITIONS OF IMPORTATION.

A BOUNTY on the exportation of corn tends to lower its price to the foreign consumer, but it has no permanent effect on its price in the home market.

Suppose that to afford the usual and general profits of stock, the price of corn should in England be 4*l.* per quarter: it could not then be exported to foreign countries where it sold for 3*l.* 15s. per quarter. But if a bounty of 10s. per quarter were given on exportation, it could be sold in the foreign market at 3*l.* 10s., and consequently the same profit would be afforded to the corn grower, whether he sold it at 3*l.* 10s. in the foreign, or at 4*l.* in the home market.

A bounty then, which should lower the price of British corn in the foreign country, below the cost of producing corn in that country, would naturally extend the demand for British, and diminish the demand for their own corn. This extension of demand for British corn could not fail to raise its price for a time in the home market, and during that time to prevent also its falling so low in the foreign market as the bounty has a tendency to effect. But the causes which would thus operate on the market price of corn in England would produce no effect whatever on its natural price, or its real cost of production. To grow corn would neither require more labour nor more capital, and, consequently, if the profits of the farmer's stock were before only equal to the profits of the stock of other traders, they will, after the rise of price, be considerably above them. By raising the profits of the farmer's stock, the bounty will operate as an encouragement to agriculture, and capital will be withdrawn from manufactures to be employed on the land, till the enlarged demand for the foreign market has been supplied, when the price of corn will again fall in the home market to its natural and necessary price, and profits will be again at their ordinary and accustomed level. The increased supply of grain operating on the foreign market, will also lower its price in the country to which it is exported, and will thereby restrict the profits of the exporter to the lowest rate at which he can afford to trade.

The ultimate effect then of a bounty on the exportation of corn

is not to raise or to lower the price in the home market, but to lower the price of corn to the foreign consumer—to the whole extent of the bounty, if the price of corn had not before been lower in the foreign, than in the home market—and in a less degree, if the price in the home had been above the price in the foreign market.

A writer in the fifth vol. of the *Edinburgh Review*, on the subject of a bounty on the exportation of corn, has very clearly pointed out its effects on the foreign and home demand. He has also justly remarked, that it would not fail to give encouragement to agriculture in the exporting country; but he appears to have imbibed the common error which has misled Dr Smith, and, I believe, most other writers on this subject. He supposes, because the price of corn ultimately regulates wages, that therefore it will regulate the price of all other commodities. He says that the bounty, "by raising the profits of farming, will operate as an encouragement to husbandry; by raising the price of corn to the consumers at home, it will diminish for the time their power of purchasing this necessary of life, and thus abridge their real wealth. It is evident, however, that this last effect must be temporary: the wages of the labouring consumers had been adjusted before by competition, and the same principle will adjust them again to the same rate, by raising the money price of labour, *and through that, of other commodities, to the money price of corn.* The bounty upon exportation, therefore, will ultimately raise the money price of corn in the home market; not directly, however, but through the medium of an extended demand in the foreign market, and a consequent enhancement of the real price at home: *and this rise of the money price, when it has once been communicated to other commodities, will of course become fixed.*"

If, however, I have succeeded in showing that it is not the rise in the money wages of labour which raises the price of commodities, but that such rise always affects profits, it will follow that the prices of commodities would not rise in consequence of a bounty.

But a temporary rise in the price of corn, produced by an increased demand from abroad, would have no effect on the money price of labour. The rise of corn is occasioned by a competition for that supply which was before exclusively appropriated to the home market. By raising profits, additional capital is employed in agriculture, and the increased supply is obtained; but till it be obtained, the high price is absolutely necessary to proportion the consumption to the supply, which would be counteracted by a rise of wages. The rise of corn is the consequence of its scarcity, and is the means by which the demand of the home purchasers is diminished. If wages were increased, the competition would increase, and a further rise of the price of corn would become necessary. In this account of the effects of a bounty, nothing has been supposed to occur to raise the natural price of corn, by which its market

price is ultimately governed; for it has not been supposed that any additional labour would be required on the land to insure a given production, and this alone can raise its natural price. If the natural price of cloth were 20s. per yard, a great increase in the foreign demand might raise the price to 25s., or more, but the profits which would then be made by the clothier would not fail to attract capital in that direction, and although the demand should be doubled, trebled, or quadrupled, the supply would ultimately be obtained, and cloth would fall to its natural price of 20s. So, in the supply of corn, although we should export 200,000, 300,000, or 800,000 quarters annually, it would ultimately be produced at its natural price, which never varies, unless a different quantity of labour becomes necessary to production.

Perhaps in no part of Adam Smith's justly celebrated work are his conclusions more liable to objection than in the chapter on bounties. In the first place, he speaks of corn as of a commodity of which the production cannot be increased in consequence of a bounty on exportation; he supposes invariably that it acts only on the quantity actually produced, and is no stimulus to farther production. "In years of plenty," he says, "by occasioning an extraordinary exportation, it necessarily keeps up the price of corn in the home market above what it would naturally fall to. In years of scarcity, though the bounty is frequently suspended, yet the great exportation which it occasions in years of plenty must frequently hinder, more or less, the plenty of one year from relieving the scarcity of another. Both in the years of plenty and in years of scarcity, therefore, the bounty necessarily tends to raise the money price of corn somewhat higher than it otherwise would be in the home market." *

Adam Smith appears to have been fully aware that the correctness of his argument entirely depended on the fact, whether the increase "of the money price of corn, by rendering that commodity

* In another place he says, that "whatever extension of the foreign market can be occasioned by the bounty must, in every particular year, be altogether at the expense of the home market, as every bushel of corn which is exported by means of the bounty, and which would not have been exported without the bounty, would have remained in the home market to increase the consumption and to lower the price of that commodity. The corn bounty, it is to be observed, as well as every other bounty upon exportation, imposes two different taxes upon the people:—first, the tax which they are obliged to contribute in order to pay the bounty; and, secondly, the tax which arises from the advanced price of the commodity in the home market, and which, as the whole body of the people are purchasers of corn, must, in this particular commodity, be paid by the whole body of the people. In this particular commodity, therefore, this second tax is by much the heaviest of the two." "For every five shillings, therefore, which they contribute to the payment of the first tax, they must contribute six pounds four shillings to the payment of the second." "The extraordinary exportation of corn, therefore, occasioned by the bounty, not only in every particular year diminishes the home, just as much as it extends the foreign market and consumption; but, by restraining the population and industry of the country, its final tendency is to stunt and restrain the gradual extension of the home market, and thereby, in the long run, rather to diminish than to augment the whole market and consumption of corn."

more profitable to the farmer, would not necessarily encourage its production."

"I answer," he says, "that this might be the case if the effect of the bounty was to raise the real price of corn, or to enable the farmer, with an equal quantity of it, to maintain a greater number of labourers in the same manner, whether liberal, moderate, or scanty, as other labourers are commonly maintained in his neighbourhood."

If nothing were consumed by the labourer but corn, and if the portion which he received was the very lowest which his sustenance required, there might be some ground for supposing that the quantity paid to the labourer could, under no circumstances, be reduced,—but the money wages of labour sometimes do not rise at all, and never rise in proportion to the rise in the money price of corn, because corn, though an important part, is only a part of the consumption of the labourer. If half his wages were expended on corn, and the other half on soap, candles, fuel, tea, sugar, clothing, &c., commodities on which no rise is supposed to take place, it is evident that he would be quite as well paid with a bushel and a half of wheat when it was 16s. a bushel, as he was with two bushels when the price was 8s. per bushel; or with 24s. in money as he was before with 16s. His wages would rise only 50 per cent. though corn rose 100 per cent.; and, consequently, there would be sufficient motive to divert more capital to the land if profits on other trades continued the same as before. But such a rise of wages would also induce manufacturers to withdraw their capitals from manufactures to employ them on the land; for, whilst the farmer increased the price of his commodity 100 per cent. and his wages only 50 per cent., the manufacturer would be obliged also to raise wages 50 per cent., whilst he had no compensation whatever in the rise of his manufactured commodity for this increased charge of production; capital would consequently flow from manufactures to agriculture, till the supply would again lower the price of corn to 8s. per bushel, and wages to 16s. per week; when the manufacturer would obtain the same profits as the farmer, and the tide of capital would cease to set in either direction. This is, in fact, the mode in which the cultivation of corn is always extended, and the increased wants of the market supplied. The funds for the maintenance of labour increase, and wages are raised. The comfortable situation of the labourer induces him to marry—population increases, and the demand for corn raises its price relatively to other things—more capital is profitably employed on agriculture, and continues to flow towards it, till the supply is equal to the demand, when the price again falls, and agricultural and manufacturing profits are again brought to a level.

But whether wages were stationary after the rise in the price of corn, or advanced moderately or enormously, is of no importance to this question, for wages are paid by the manufacturer as well as by

the farmer, and, therefore, in this respect they must be equally affected by a rise in the price of corn. But they are unequally affected in their profits, inasmuch as the farmer sells his commodity at an advanced price, while the manufacturer sells his for the same price as before. It is, however, the inequality of profit which is always the inducement to remove capital from one employment to another: and, therefore, more corn would be produced, and fewer commodities manufactured. Manufactures would not rise, because fewer would be manufactured, for a supply of them would be obtained in exchange for the exported corn.

A bounty, if it raises the price of corn, either raises it in comparison with the price of other commodities or it does not. If the affirmative be true, it is impossible to deny the greater profits of the farmer, and the temptation to the removal of capital till its price is again lowered by an abundant supply. If it does not raise it in comparison with other commodities, where is the injury to the home consumer beyond the inconvenience of paying the tax? If the manufacturer pays a greater price for his corn, he is compensated by the greater price at which he sells his commodity, with which his corn is ultimately purchased.

The error of Adam Smith proceeds precisely from the same source as that of the writer in the *Edinburgh Review;* for they both think "that the money price of corn regulates that of all other home-made commodities."* "It regulates," says Adam Smith, "the money price of labour, which must always be such as to enable the labourer to purchase a quantity of corn sufficient to maintain him and his family, either in the liberal, moderate, or scanty manner, in which the advancing, stationary, or declining circumstances of the society oblige his employers to maintain him. By regulating the money price of all the other parts of the rude produce of land, it regulates that of the materials of almost all manufactures. By regulating the money price of labour, it regulates that of manufacturing art and industry; and by regulating both, it regulates that of the complete manufacture. *The money price of labour, and of every thing that is the produce either of land or labour, must necessarily rise or fall in proportion to the money price of corn.*"

This opinion of Adam Smith, I have before attempted to refute. In considering a rise in the price of commodities as a necessary consequence of a rise in the price of corn, he reasons as though there were no other fund from which the increased charge could be paid. He has wholly neglected the consideration of profits, the diminution of which forms that fund, without raising the price of commodities. If this opinion of Dr Smith were well founded, profits could never really fall, whatever accumulation of capital there might be. If, when wages rose, the farmer could raise the price of his corn, and the clothier, the hatter, the shoemaker, and

* The same opinion is held by M. Say.—Vol. ii. p. 335.

every other manufacturer, could also raise the price of their goods in proportion to the advance, although estimated in money they might be all raised, they would continue to bear the same value relatively to each other. Each of these trades could command the same quantity as before of the goods of the others, which, since it is goods, and not money, which constitute wealth, is the only circumstance that could be of importance to them; and the whole rise in the price of raw produce and of goods, would be injurious to no other persons but to those whose property consisted of gold and silver, or whose annual income was paid in a contributed quantity of those metals, whether in the form of bullion or of money. Suppose the use of money to be wholly laid aside, and all trade to be carried on by barter. Under such circumstances, could corn rise in exchangeable value with other things? If it could, then it is not true that the value of corn regulates the value of all other commodities; for to do that, it should not vary in relative value to them. If it could not, then it must be maintained, that whether corn be obtained on rich or on poor land, with much labour, or with little, with the aid of machinery, or without, it would always exchange for an equal quantity of all other commodities.

I cannot, however, but remark that, though Adam Smith's general doctrines correspond with this which I have just quoted, yet in one part of his work he appears to have given a correct account of the nature of value. "The proportion between the value of gold and silver, and that of goods of any other kind, DEPENDS IN ALL CASES," he says, "*upon the proportion between the quantity of labour which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary to bring thither a certain quantity of any other sort of goods.*" Does he not here fully acknowledge, that if any increase takes place in the quantity of labour required to bring one sort of goods to market, whilst no such increase takes place in bringing another sort thither, the first sort will rise in relative value? If no more labour than before be required to bring either cloth or gold to market, they will not vary in relative value, but if more labour be required to bring corn and shoes to market, will not corn and shoes rise in value relatively to cloth, and money made of gold?

Adam Smith again considers that the effect of the bounty is to cause a partial degradation in the value of money. "That degradation," says he, "in the value of silver, which is the effect of the fertility of the mines, and which operates equally, or very nearly equally, through the greater part of the commercial world, is a matter of very little consequence to any particular country. The consequent rise of all money prices, though it does not make those who receive them really richer, does not make them really poorer. A service of plate becomes really cheaper, and everything else remains precisely of the same real value as before." This observation is most correct.

"But that degradation in the value of silver, which, being the effect either of the peculiar situation, or of the political institutions of a particular country, takes place only in that country, is a matter of very great consequence, which, far from tending to make any body really richer, tends to make every body really poorer. The rise in the money price of all commodities, which is in this case peculiar to that country, tends to discourage more or less every sort of industry which is carried on within it, and to enable foreign nations, by furnishing almost all sorts of goods for a smaller quantity of silver than its own workmen can afford to do, to undersell them, not only in the foreign, but even in the home market."

I have elsewhere attempted to show that a partial degradation in the value of money, which shall affect both agricultural produce and manufactured commodities, cannot possibly be permanent. To say that money is partially degraded, in this sense, is to say that all commodities are at a high price; but while gold and silver are at liberty to make purchases in the cheapest market, they will be exported for the cheaper goods of other countries, and the reduction of their quantity will increase their value at home; commodities will regain their usual level, and those fitted for foreign markets will be exported as before.

A bounty, therefore, cannot, I think, be objected to on this ground.

If, then, a bounty raises the price of corn in comparison with all other things, the farmer will be benefited, and more land will be cultivated; but if the bounty do not raise the value of corn relatively to other things, then no other inconvenience will attend it than that of paying the bounty; one which I neither wish to conceal nor underrate.

Dr Smith states, that "by establishing high duties on the importation, and bounties on the exportation of corn, the country gentlemen seemed to have imitated the conduct of the manufacturers." By the same means, both had endeavoured to raise the value of their commodities. "They did not, perhaps, attend to the great and essential difference which nature has established between corn, and almost every other sort of goods. When by either of the above means, you enable our manufacturers to sell their goods for somewhat a better price than they otherwise could get for them, you raise not only the nominal, but the real price of those goods. You increase not only the nominal, but the real profit, the real wealth and revenue of those manufacturers—you really encourage those manufactures. But when, by the like institutions, you raise the nominal or money price of corn, you do not raise its real value, you do not increase the real wealth of our farmers or country gentlemen, you do not encourage the growth of corn. The nature of things has stamped upon corn a real value, which cannot be altered by merely altering its money price. Through the world in general, that value is equal to the quantity of labour which it can maintain."

I have already attempted to show, that the market price of corn would, under an increased demand from the effects of a bounty, exceed its natural price, till the requisite additional supply was obtained, and that then it would again fall to its natural price. But the natural price of corn is not so fixed as the natural price of commodities; because, with any great additional demand for corn, land of a worse quality must be taken into cultivation, on which more labour will be required to produce a given quantity, and the natural price of corn will be raised. By a continued bounty, therefore, on the exportation of corn, there would be created a tendency to a permanent rise in the price of corn, and this, as I have shown elsewhere,* never fails to raise rent. Country gentlemen, then, have not only a temporary but a permanent interest in prohibitions of the importation of corn, and in bounties on its exportation; but manufacturers have no permanent interest in establishing high duties on the importation, and bounties on the exportation of commodities; their interest is wholly temporary.

A bounty on the exportation of manufactures will, undoubtedly, as Dr Smith contends, raise for a time the market price of manufactures, but it will not raise their natural price. The labour of 200 men will produce double the quantity of these goods that 100 could produce before; and, consequently, when the requisite quantity of capital was employed in supplying the requisite quantity of manufactures, they would again fall to their natural price, and all advantage from a high market price would cease. It is, then, only during the interval after the rise in the market price of commodities, and till the additional supply is obtained, that the manufacturers will enjoy high profits; for as soon as prices had subsided, their profits would sink to the general level.

Instead of agreeing, therefore, with Adam Smith, that the country gentlemen had not so great an interest in prohibiting the importation of corn, as the manufacturer had in prohibiting the importation of manufactured goods, I contend, that they have a much superior interest; for their advantage is permanent, while that of the manufacturer is only temporary. Dr Smith observes, that nature has established a great and essential difference between corn and other goods, but the proper inference from that circumstance is directly the reverse of that which he draws from it; for it is on account of this difference that rent is created, and that country gentlemen have an interest in the rise of the natural price of corn. Instead of comparing the interest of the manufacturer with the interest of the country gentleman, Dr Smith should have compared it with the interest of the farmer, which is very distinct from that of his landlord. Manufacturers have no interest in the rise of the natural price of their commodities, nor have farmers any interest in the rise of the natural price of corn, or other raw produce, though both these

* See Chapter on Rent.

classes are benefited while the market price of their productions exceeds their natural price. On the contrary, landlords have a most decided interest in the rise of the natural price of corn; for the rise of rent is the inevitable consequence of the difficulty of producing raw produce, without which its natural price could not rise. Now, as bounties on exportation and prohibitions of the importation of corn increase the demand, and drive us to the cultivation of poorer lands, they necessarily occasion an increased difficulty of production.

The sole effect of high duties on the importation, either of manufactures or of corn, or of a bounty on their exportation, is to divert a portion of capital to an employment, which it would not naturally seek. It causes a pernicious distribution of the general funds of the society—it bribes a manufacturer to commence or continue in a comparatively less profitable employment. It is the worst species of taxation, for it does not give to the foreign country all that it takes away from the home country, the balance of loss being made up by the less advantageous distribution of the general capital. Thus, if the price of corn is in England 4*l.*, and in France 3*l.* 15s., a bounty of 10s. will ultimately reduce it to 3*l.* 10s. in France, and maintain it at the same price of 4*l.* in England. For every quarter exported, England pays a tax of 10s. For every quarter imported into France, France gains only 5s., so that the value of 5s. per quarter is absolutely lost to the world by such a distribution of its funds, as to cause diminished production, probably not of corn, but of some other object of necessity or enjoyment.

Mr Buchanan appears to have seen the fallacy of Dr Smith's arguments respecting bounties, and on the last passage which I have quoted, very judiciously remarks: "In asserting that nature has stamped a real value on corn, which cannot be altered by merely altering its money price, Dr Smith confounds its value in use with its value in exchange. A bushel of wheat will not feed more people during scarcity than during plenty; but a bushel of wheat will exchange for a greater quantity of luxuries and conveniences when it is scarce than when it is abundant; and the landed proprietors, who have a surplus of food to dispose of, will therefore, in times of scarcity, be richer men; they will exchange their surplus for a greater value of other enjoyments than when corn is in greater plenty. It is vain to argue, therefore, that if the bounty occasions a forced exportation of corn, it will not also occasion a real rise of price." The whole of Mr Buchanan's arguments on this part of the subject of bounties, appear to me to be perfectly clear and satisfactory.

Mr Buchanan, however, has not, I think, any more than Dr Smith, or the writer in the *Edinburgh Review*, correct opinions as to the influence of a rise in the price of labour on manufactured commodities. From his peculiar views, which I have elsewhere noticed, he thinks that the price of labour has no connexion with the price of corn, and, therefore, that the real value of corn might and would rise without affecting the price of labour; but if labour

were affected, he would maintain with Adam Smith and the writer in the *Edinburgh Review*, that the price of manufactured commodities would also rise; and then I do not see how he would distinguish such a rise of corn from a fall in the value of money, or how he could come to any other conclusion than that of Dr Smith. In a note to page 276, vol. i. of the Wealth of Nations, Mr Buchanan observes, "but the price of corn does not regulate the money price of all the other parts of the rude produce of land. It regulates the price neither of metals, nor of various other useful substances, such as coals, wood, stones, &c.; *and as it does not regulate the price of labour, it does not regulate the price of manufactures;* so that the bounty, in so far as it raises the price of corn, is undoubtedly a real benefit to the farmer. It is not on this ground, therefore, that its policy must be argued. Its encouragement to agriculture, by raising the price of corn, must be admitted; and the question then comes to be, whether agriculture ought to be thus encouraged?"—It is then, according to Mr Buchanan, a real benefit to the farmer, because it does not raise the price of labour: but if it did, it would raise the price of all things in proportion, and then it would afford no particular encouragement to agriculture.

It must, however, be conceded that the tendency of a bounty on the exportation of any commodity is to lower in a small degree the value of money. Whatever facilitates exportation, tends to accumulate money in a country; and, on the contrary, whatever impedes exportation, tends to diminish it. The general effect of taxation, by raising the prices of the commodities taxed, tends to diminish exportation, and, therefore, to check the influx of money; and, on the same principle, a bounty encourages the influx of money. This is more fully explained in the general observations on taxation.

The injurious effects of the mercantile system have been fully exposed by Dr Smith; the whole aim of that system was to raise the price of commodities in the home market, by prohibiting foreign competition; but this system was no more injurious to the agricultural classes than to any other part of the community. By forcing capital into channels where it would not otherwise flow, it diminished the whole amount of commodities produced. The price, though permanently higher, was not sustained by scarcity, but by difficulty of production; and therefore, though the sellers of such commodities sold them for a higher price, they did not sell them, after the requisite quantity of capital was employed in producing them, at higher profits.*

* M. Say supposes the advantage of the manufacturers at home to be more than temporary. "A government which absolutely prohibits the importation of certain foreign goods, establishes a monopoly *in favour of those* who produce such commodities at home, *against those* who consume them; in other words, those at home who produce them having the exclusive privilege of selling them, may elevate their price above the natural price; and the consumers at home, not being able to obtain them elsewhere, are obliged to purchase them at a higher price."—Vol. i. p. 201.

But how can they permanently support the market price of their goods above the

The manufacturers themselves, as consumers, had to pay an additional price for such commodities, and, therefore, it cannot be correctly said, that "the enhancement of price occasioned by both (corporation laws and high duties on the importations of foreign commodities) is everywhere finally paid by the landlords, farmers, and labourers of the country."

It is the more necessary to make this remark, as in the present day the authority of Adam Smith is quoted by country gentlemen for imposing similar high duties on the importation of foreign corn. Because the cost of production, and, therefore, the prices of various manufactured commodities, are raised to the consumer by one error in legislation, the country has been called upon, on the plea of justice, quietly to submit to fresh exactions. Because we all pay an additional price for our linen, muslin, and cottons, it is thought just that we should pay also an additional price for our corn. Because, in the general distribution of the labour of the world, we have prevented the greatest amount of productions from being obtained by our portion of that labour in manufactured commodities, we should further punish ourselves by diminishing the productive powers of the general labour in the supply of raw produce. It would be much wiser to acknowledge the errors which a mistaken policy has induced us to adopt, and immediately to commence a gradual recurrence to the sound principles of a universally free trade.*

"I have already had occasion to remark," observes M. Say, "in speaking of what is improperly called the balance of trade, that if it suits a merchant better to export the precious metals to a foreign country than any other goods, it is also the interest of the State that he should export them, because the State only gains or loses through the channel of its citizens; and in what concerns foreign trade, that which best suits the individual best suits also the State; therefore, by opposing obstacles to the exportation which individuals would be inclined to make of the precious metals, nothing more is done than to force them to substitute some other commodity less profitable to themselves and to the State. It must, however, be remarked, that I say only *in what concerns foreign trade;* because the profits which merchants make by their dealings with their

natural price, when every one of their fellow citizens is free to enter into the trade? They are guaranteed against foreign, but not against home competition. The real evil arising to the country from such monopolies, if they can be called by that name, lies, not in raising the market price of such goods, but in raising their real and natural price. By increasing the cost of production, a portion of the labour of the country is less productively employed.

* "A freedom of trade is alone wanted to guarantee a country like Britain, abounding in all the varied products of industry, in merchandise suited to the wants of every society, from the possibility of a scarcity. The nations of the earth are not condemned to throw the dice to determine which of them shall submit to famine. There is always abundance of food in the world. To enjoy a constant plenty we have only to lay aside our prohibitions and restrictions, and cease to counteract the benevolent wisdom of Providence."—Article "Corn Laws and Trade," Supplement to Encyclopædia Britannica.

countrymen, as well as those which are made in the exclusive commerce with colonies, are not entirely gains for the State. In the trade between individuals of the same country, there is no other gain but the value of a utility produced; *que la valeur d'une utilité produite*," * Vol. i. p. 401. I cannot see the distinction here made between the profits of the home and foreign trade. The object of all trade is to increase productions. If, for the purchase of a pipe of wine, I had it in my power to export bullion which was bought with the value of the produce of 100 days' labour, but Government, by prohibiting the exportation of bullion, should oblige me to purchase my wine with a commodity bought with the value of the produce of 105 days' labour, the produce of five days' labour is lost to me, and, through me, to the State. But if these transactions took place between individuals in different provinces of the same country, the same advantage would accrue both to the individual, and, through him, to the country; if he were unfettered in his choice of the commodities with which he made his purchases; and the same disadvantage if he were obliged by Government to purchase with the least beneficial commodity. If a manufacturer could work up with the same capital more iron where coals are plentiful than he could where coals are scarce, the country would be benefited by the difference. But if coals were nowhere plentiful, and he imported iron, and could get this additional quantity by the manufacture of a commodity with the same capital and labour, he would, in like manner, benefit his country by the additional quantity of iron. In the sixth chapter of this work, I have endeavoured to show that all trade, whether foreign or domestic, is beneficial, by increasing the quantity, and not by increasing the value of productions. We shall have no greater value, whether we carry on the most beneficial home and foreign trade, or, in consequence of being fettered by prohibitory laws, we are obliged to content ourselves with the least advantageous. The rate of profits and the value produced will be the same. The advantage always resolves itself into that which M. Say appears to confine to the home trade; in both cases there is no other gain but that of the value of a *utilité produite*.

* Are not the following passages contradictory to the one above quoted? "Besides, that home trade, though less noticed (because it is in a variety of hands), is the most considerable, it is also the most profitable. The commodities exchanged in that trade are necessarily the productions of the same country."—Vol. i. p. 84.

"The English Government has not observed, that the most profitable sales are those which a country makes to itself, because they cannot take place without two values being produced by the nation; the value which is sold, and the value with which the purchase is made."—Vol. i. p. 221.

I shall, in the 26th chapter, examine the soundness of this opinion.

## CHAPTER XXIII.

### ON BOUNTIES ON PRODUCTIONS.

It may not be uninstructive to consider the effects of a bounty on the *production* of raw produce and other commodities, with a view to observe the application of the principles which I have been endeavouring to establish with regard to the profits of stock, the division of the annual produce of the land and labour, and the relative prices of manufactures and raw produce. In the first place, let us suppose that a tax was imposed on all commodities for the purpose of raising a fund to be employed by Government in giving a bounty on the *production* of corn. As no part of such a tax would be expended by Government, and as all that was received from one class of the people would be returned to another, the nation collectively would be neither richer nor poorer from such a tax and bounty. It would be readily allowed, that the tax on commodities by which the fund was created would raise the price of the commodities taxed; all the consumers of those commodities, therefore, would contribute towards that fund; in other words, their natural or necessary price being raised, so would, too, their market price. But for the same reason that the natural price of those commodities would be raised, the natural price of corn would be lowered; before the bounty was paid on production, the farmers obtained as great a price for their corn as was necessary to repay them their rent and their expenses, and afford them the general rate of profits; after the bounty, they would receive more than that rate, unless the price of corn fell by a sum at least equal to the bounty. The effect, then, of the tax and bounty would be to raise the price of commodities in a degree equal to the tax levied on them, and to lower the price of corn by a sum equal to the bounty paid. It will be observed, too, that no permanent alteration could be made in the distribution of capital between agriculture and manufactures, because, as there would be no alteration either in the amount of capital or population, there would be precisely the same demand for bread and manufactures. The profits of the farmer would be no higher than the general level after the fall in the price of corn; nor would the profits of the manufacturer be lower after the rise of manufactured goods; the bounty, then, would not occasion any more capital to

be employed on the land in the production of corn, nor any less in the manufacture of goods. But how would the interest of the landlord be affected? On the same principles that a tax on raw produce would lower the corn rent of land, leaving the money rent unaltered, a bounty on production, which is directly the contrary of a tax, would raise corn rent, leaving the money rent unaltered.* With the same money rent the landlord would have a greater price to pay for his manufactured goods, and a less price for his corn; he would probably, therefore, be neither richer nor poorer.

Now, whether such a measure would have any operation on the wages of labour, would depend on the question, whether the labourer, in purchasing commodities, would pay as much towards the tax as he would receive from the effects of the bounty, in the low price of his food. If these two quantities were equal, wages would continue unaltered; but if the commodities taxed were not those consumed by the labourer, his wages would fall, and his employer would be benefited by the difference. But this is no real advantage to his employer; it would indeed operate to increase the rate of his profits, as every fall of wages must do; but in proportion as the labourer contributed less to the fund from which the bounty was paid, and which, let it be remembered, must be raised, his employer must contribute more; in other words, he would contribute as much to the tax by his expenditure as he would receive in the effects of the bounty and the higher rate of profits together. He obtains a higher rate of profits to requite him for his payment, not only of his own quota of the tax, but of his labourer's also; the remuneration which he receives for his labourer's quota appears in diminished wages, or, which is the same thing, in increased profits; the remuneration for his own appears in the diminution in the price of the corn which he consumes, arising from the bounty.

Here it will be proper to remark the different effects produced on profits from an alteration in the real labour, or natural value of corn, and an alteration in the relative value of corn, from taxation and from bounties. If corn is lowered in price by an alteration in its labour price, not only will the rate of the profits of stock be altered, but the condition of the capitalist will be improved. With greater profits, he will have no more to pay for the objects on which those profits are expended; which does not happen, as we have just seen, when the fall is occasioned artificially by a bounty. In the real fall in the value of corn, arising from less labour being required to produce one of the most important objects of man's consumption, labour is rendered more productive. With the same capital the same labour is employed, and an increase of productions is the result; not only then will the rate of profits be increased, but the condition of him who obtains them will be improved; not only will each capitalist have a greater money revenue, if he employs the same money capital, but also

* See p. 92.

Korea 1950-51



when that money is expended, it will procure him a greater sum of commodities; his enjoyments will be augmented. In the case of the bounty, to balance the advantage which he derives from the fall of one commodity, he has the disadvantage of paying a price more than proportionally high for another; he receives an increased rate of profits in order to enable him to pay this higher price; so that his real situation, though not deteriorated, is in no way improved: though he gets a higher rate of profits, he has no greater command of the produce of the land and labour of the country. When the fall in the value of corn is brought about by natural causes, it is not counteracted by the rise of other commodities; on the contrary, they fall from the raw material falling from which they are made: but when the fall in corn is occasioned by artificial means, it is always counteracted by a real rise in the value of some other commodity, so that if corn be bought cheaper, other commodities are bought dearer.

This, then, is a further proof that no particular disadvantage arises from taxes on necessaries, on account of their raising wages and lowering the rate of profits. Profits are indeed lowered, but only to the amount of the labourer's portion of the tax, which must at all events be paid either by his employer or by the consumer of the produce of the labourer's work. Whether you deduct 50*l.* per annum from the employer's revenue, or add 50*l.* to the prices of the commodities which he consumes, can be of no other consequence to him or to the community than as it may equally affect all other classes. If it be added to the prices of the commodity, a miser may avoid the tax by not consuming; if it be indirectly deducted from every man's revenue, he cannot avoid paying his fair proportion of the public burthens.

A bounty on the production of corn, then, would produce no real effect on the annual produce of the land and labour of the country, although it would make corn relatively cheap, and manufactures relatively dear. But suppose now that a contrary measure should be adopted,—that a tax should be raised on corn for the purpose of affording a fund for a bounty on the production of commodities.

In such case, it is evident that corn would be dear and commodities cheap; labour would continue at the same price if the labourer were as much benefited by the cheapness of commodities as he was injured by the dearness of corn; but if he were not, wages would rise, and profits would fall, while money rent would continue the same as before; profits would fall, because, as we have just explained, that would be the mode in which the labourer's share of the tax would be paid by the employers of labour. By the increase of wages the labourer would be compensated for the tax which he would pay in the increased price of corn; by not expending any part of his wages on the manufactured commodities, he would receive no part of the bounty; the bounty would be all received by the employers, and the tax would be partly paid by the employed:

a remuneration would be made to the labourers, in the shape of wages, for this increased burden laid upon them, and thus the rate of profits would be reduced. In this case, too, there would be a complicated measure producing no national result whatever.

In considering this question we have purposely left out of our consideration the effect of such a measure on foreign trade; we have rather been supposing the case of an insulated country, having no commercial connexion with other countries. We have seen that, as the demand of the country for corn and commodities would be the same, whatever direction the bounty might take, there would be no temptation to remove capital from one employment to another; but this would no longer be the case if there were foreign commerce, and that commerce were free. By altering the relative value of commodities and corn, by producing so powerful an effect on their natural prices, we should be applying a strong stimulus to the exportation of those commodities whose natural prices were lowered, and an equal stimulus to the importation of those commodities whose natural prices were raised, and thus such a financial measure might entirely alter the natural distribution of employments, to the advantage indeed of the foreign countries, but ruinously to that in which so absurd a policy was adopted.

## CHAPTER XXIV.

### DOCTRINE OF ADAM SMITH CONCERNING THE RENT OF LAND.

"Such parts only of the produce of land," says Adam Smith, "can commonly be brought to market, of which the ordinary price is sufficient to replace the stock which must be employed in bringing them thither, together with its ordinary profits. If the ordinary price is more than this, the surplus part of it will naturally go to the rent of land. *If it is not more, though the commodity can be brought to market, it can afford no rent to the landlord.* Whether the price is, or is not more, depends upon the demand."

This passage would naturally lead the reader to conclude that its author could not have mistaken the nature of rent, and that he must have seen that the quality of land which the exigencies of society might require to be taken into cultivation, would depend on "*the ordinary price of its produce*," *whether it were* "*sufficient to replace the stock, which must be employed in cultivating it, together with its ordinary profits.*"

But he had adopted the notion that "there were some parts of the produce of land for which the demand must always be such as to afford a greater price than what is sufficient to bring them to market;" and he considered food as one of those parts.

He says, that "land, in almost any situation, produces a greater quantity of food than what is sufficient to maintain all the labour necessary for bringing it to market, in the most liberal way in which that labour is ever maintained. The surplus, too, is always more than sufficient to replace the stock which employed that labour, together with its profits. Something, therefore, always remains for a rent to the landlord."

But what proof does he give of this?—no other than the assertion that "the most desert moors in Norway and Scotland produce some sort of pasture for cattle, of which the milk and the increase are always more than sufficient, not only to maintain all the labour necessary for tending them, and to pay the ordinary profit to the farmer, or owner of the herd or flock, but to afford some small rent to the landlord." Now, of this I may be permitted to entertain a doubt; I believe that as yet in every country, from the rudest to

the most refined, there is land of such a quality that it cannot yield a produce more than sufficiently valuable to replace the stock employed upon it, together with the profits ordinary and usual in that country. In America we all know that this is the case, and yet no one maintains that the principles which regulate rent, are different in that country and in Europe. But if it were true that England had so far advanced in cultivation, that at this time there were no lands remaining which did not afford a rent, it would be equally true, that there formerly must have been such lands; and that whether there be or not, is of no importance to this question, for it is the same thing if there be any capital employed in Great Britain on land which yields only the return of stock with its ordinary profits, whether it be employed on old or on new land. If a farmer agrees for land on a lease of seven or fourteen years, he may propose to employ on it a capital of 10,000*l.*, knowing that at the existing price of grain and raw produce, he can replace that part of his stock which he is obliged to expend, pay his rent, and obtain the general rate of profit. He will not employ 11,000*l.*, unless the last 1000*l.* can be employed so productively as to afford him the usual profits of stock. In his calculation, whether he shall employ it or not, he considers only whether the price of raw produce is sufficient to replace his expenses and profits, for he knows that he shall have no additional rent to pay. Even at the expiration of his lease his rent will not be raised; for if his landlord should require rent, because this additional 1000*l.* was employed, he would withdraw it; since, by employing it, he gets, by the supposition, only the ordinary and usual profits which he may obtain by any other employment of stock; and, therefore, he cannot afford to pay rent for it, unless the price of raw produce should further rise, or, which is the same thing, unless the usual and general rate of profits should fall.

If the comprehensive mind of Adam Smith had been directed to this fact, he would not have maintained that rent forms one of the component parts of the price of raw produce; for price is every where regulated by the return obtained by this last portion of capital, for which no rent whatever is paid. If he had adverted to this principle, he would have made no distinction between the law which regulates the rent of mines and the rent of land.

"Whether a coal mine, for example," he says, "can afford any rent, depends partly upon its fertility, and partly upon its situation. A mine of any kind may be said to be either fertile or barren, according as the quantity of mineral which can be brought from it by a certain quantity of labour, is greater or less than what can be brought by an equal quantity from the greater part of other mines of the same kind. Some coal mines, advantageously situated, cannot be wrought on account of their barrenness. The produce does not pay the expense. They can afford neither profit nor rent. There are some, of which the produce is barely sufficient to pay the

labour, and replace, together with its ordinary profits, the stock employed in working them. They afford some profit to the undertaker of the work, but no rent to the landlord. They can be wrought advantageously by nobody but the landlord, who being himself the undertaker of the work, gets the ordinary profit of the capital which he employs in it. Many coal mines in Scotland are wrought in this manner, and can be wrought in no other. The landlord will allow nobody else to work them without paying some rent, and nobody can afford to pay any.

"Other coal mines in the same country, sufficiently fertile, cannot be wrought on account of their situation. A quantity of mineral sufficient to defray the expense of working, could be brought from the mine by the ordinary, or even less than the ordinary quantity of labour; but in an inland country, thinly inhabited, and without either good roads or water-carriage, this quantity could not be sold." The whole principle of rent is here admirably and perspicuously explained, but every word is as applicable to land as it is to mines; yet he affirms that "it is otherwise in estates above ground. The proportion, both of their produce and of their rent, is in proportion to their absolute, and not to their relative fertility." But, suppose that there were no land which did not afford a rent; then, the amount of rent on the worst land would be in proportion to the excess of the value of the produce above the expenditure of capital and the ordinary profits of stock: the same principle would govern the rent of land of a somewhat better quality, or more favourably situated, and, therefore, the rent of this land would exceed the rent of that inferior to it, by the superior advantages which it possessed; the same might be said of that of the third quality, and so on to the very best. Is it not, then, as certain, that it is the relative fertility of the land, which determines the portion of the produce, which shall be paid for the rent of land, as it is that the relative fertility of mines determines the portion of their produce, which shall be paid for the rent of mines?

After Adam Smith has declared that there are some mines which can only be worked by the owners, as they will afford only sufficient to defray the expense of working, together with the ordinary profits of the capital employed, we should expect that he would admit that it was these particular mines which regulated the price of the produce from all mines. If the old mines are insufficient to supply the quantity of coal required, the price of coal will rise, and will continue rising till the owner of a new and inferior mine finds that he can obtain the usual profits of stock by working his mine. If his mine be tolerably fertile, the rise will not be great before it becomes his interest so to employ his capital; but if it be not tolerably fertile, it is evident that the price must continue to rise till it will afford him the means of paying his expenses, and obtaining the ordinary profits of stock. It appears, then, that it is always the least fertile mine which regulates the price of coal. Adam Smith, however, is

of a different opinion: he observes, that "the most fertile coal mine, too, regulates the price of coals at all the other mines in its neighbourhood. Both the proprietor and the undertaker of the work find, the one that he can get a greater rent, the other, that he can get a greater profit, by somewhat underselling all their neighbours. Their neighbours are soon obliged to sell at the same price, though they cannot so well afford it, and though it always diminishes, and sometimes takes away altogether, both their rent and their profit. Some works are abandoned altogether; others can afford no rent, and can be wrought only by the proprietor." If the demand for coal should be diminished, or if by new processes the quantity should be increased, the price would fall, and some mines would be abandoned; but in every case, the price must be sufficient to pay the expenses and profit of that mine which is worked without being charged with rent. It is, therefore, the least fertile mine which regulates price. Indeed, it is so stated in another place by Adam Smith himself, for he says, "The lowest price at which coals can be sold for any considerable time, is like that of all other commodities, the price which is barely sufficient to replace, together with its ordinary profits, the stock which must be employed in bringing them to market. At a coal mine for which the landlord can get no rent, but which he must either work himself, or let it alone all altogether, the price of coals must generally be nearly about this price."

But the same circumstance, namely, the abundance and consequent cheapness of coals, from whatever cause it may arise, which would make it necessary to abandon those mines on which there was no rent, or a very moderate one, would, if there were the same abundance and consequent cheapness of raw produce, render it necessary to abandon the cultivation of those lands for which either no rent was paid, or a very moderate one. If, for example, potatoes should become the general and common food of the people, as rice is in some countries, one-fourth, or one-half of the land now in cultivation would probably be immediately abandoned; for if, as Adam Smith says, "an acre of potatoes will produce six thousand weight of solid nourishment, three times the quantity produced by the acre of wheat," there could not be for a considerable time such a multiplication of people as to consume the quantity that might be raised on the land before employed for the cultivation of wheat; much land would consequently be abandoned, and rent would fall; and it would not be till the population had been doubled or trebled, that the same quantity of land could be in cultivation, and the rent paid for it as high as before.

Neither would any greater proportion of the gross produce be paid to the landlord, whether it consisted of potatoes, which would feed three hundred people, or of wheat, which would feed only one hundred; because, though the expenses of production would be very much diminished if the labourer's wages were chiefly regulated by the price of potatoes, and not by the price of wheat, and though,

therefore, the proportion of the whole gross produce, after paying the labourers, would be greatly increased, yet no part of that additional proportion would go to rent, but the whole invariably to profits,—profits being at all times raised as wages fall, and lowered as wages rise. Whether wheat or potatoes were cultivated, rent would be governed by the same principle,—it would be always equal to the difference between the quantities of produce obtained with equal capitals, either on the same land, or on land of different qualities; and, therefore, while lands of the same quality were cultivated, and there was no alteration in their relative fertility or advantages, rent would always bear the same proportion to the gross produce.

Adam Smith, however, maintains that the proportion which falls to the landlord would be increased by a diminished cost of production, and, therefore, that he would receive a larger share as well as a larger quantity, from an abundant than from a scanty produce. "A rice field," he says, "produces a much greater quantity of food than the most fertile corn field. Two crops in the year, from thirty to sixty bushels each, are said to be the ordinary produce of an acre. Though its cultivation, therefore, requires more labour, a much greater surplus remains after maintaining all that labour. In those rice countries, therefore, where rice is the common and favourite vegetable food of the people, and where the cultivators are chiefly maintained with it, *a greater share of this greater surplus should belong to the landlord than in corn countries.*"

Mr Buchanan also remarks that "it is quite clear, that if any other produce, which the land yielded more abundantly than corn, were to become the common food of the people, the rent of the landlord would be improved in proportion to its greater abundance."

If potatoes were to become the common food of the people, there would be a long interval during which the landlords would suffer an enormous deduction of rent. They would not probably receive nearly so much of the sustenance of man as they now receive, while that sustenance would fall to a third of its present value. But all manufactured commodities, on which a part of the landlord's rent is expended, would suffer no other fall than that which proceeded from the fall in the raw material of which they were made, and which would arise only from the greater fertility of the land, which might then be devoted to its production.

When, from the progress of population, land of the same quality as before should be taken into cultivation, the landlord would have not only the same proportion of the produce as before, but that proportion would also be of the same value as before. Rent, then, would be the same as before; profits, however, would be much higher, because the price of food, and consequently wages, would be much lower. High profits are favourable to the accumulation of capital. The demand for labour would further increase, and

landlords would be permanently benefited by the increased demand for land.

Indeed, the very same lands might be cultivated much higher when such an abundance of food could be produced from them, and, consequently, they would, in the progress of society, admit of much higher rents, and would sustain a much greater population than before. This could not fail to be highly beneficial to landlords, and is consistent with the principle which this inquiry, I think, will not fail to establish—that all extraordinary profits are in their nature but of limited duration, as the whole surplus produce of the soil, after deducting from it only such moderate profits as are sufficient to encourage accumulation, must finally rest with the landlord.

With so low a price of labour as such an abundant produce would cause, not only would the lands already in cultivation yield a much greater quantity of produce, but they would admit of a great additional capital being employed on them, and a greater value to be drawn from them, and, at the same time, lands of a very inferior quality could be cultivated with high profits, to the great advantage of landlords, as well as to the whole class of consumers. The machine which produced the most important article of consumption would be improved, and would be well paid for according as its services were demanded. All the advantages would, in the first instance, be enjoyed by labourers, capitalists, and consumers; but, with the progress of population, they would be gradually transferred to the proprietors of the soil.

Independently of these improvements, in which the community have an immediate and the landlords a remote interest, the interest of the landlord is always opposed to that of the consumer and manufacturer. Corn can be permanently at an advanced price only because additional labour is necessary to produce it; because its cost of production is increased. The same cause invariably raises rent, it is therefore for the interest of the landlord that the cost attending the production of corn should be increased. This, however, is not the interest of the consumer; to him it is desirable that corn should be low relatively to money and commodities, for it is always with commodities or money that corn is purchased. Neither is it the interest of the manufacturer that corn should be at a high price, for the high price of corn will occasion high wages, but will not raise the price of his commodity. Not only, then, must more of his commodity, or, which comes to the same thing, the value of more of his commodity, be given in exchange for the corn which he himself consumes, but more must be given, or the value of more, for wages to his workmen, for which he will receive no remuneration. All classes, therefore, except the landlords, will be injured by the increase in the price of corn. The dealings between the landlord and the public are not like dealings in trade, whereby both the seller and buyer may equally be said to gain, but the loss is wholly

on one side, and the gain wholly on the other; and if corn could by importation be procured cheaper, the loss in consequence of not importing is far greater on one side than the gain is on the other.

Adam Smith never makes any distinction between a low value of money and a high value of corn, and therefore infers, that the interest of the landlord is not opposed to that of the rest of the community. In the first case, money is low relatively to all commodities; in the other, corn is high relatively to all. In the first, corn and commodities continue at the same relative values; in the second, corn is higher relatively to commodities as well as money.

The following observation of Adam Smith is applicable to a low value of money, but it is totally inapplicable to a high value of corn. "If importation (of corn) was at all times free, our farmers and country gentlemen would probably, one year with another, get less money for their corn than they do at present when importation is at most times in effect prohibited; but the money which they got would be of more value, *would buy more goods of all other kinds*, and would employ more labour. Their real wealth, their real revenue, therefore, would be the same as at present, though it might be expressed by a smaller quantity of silver; and they would neither be disabled nor discouraged from cultivating corn as much as they do at present. On the contrary, as the rise in the real value of silver, in consequence of lowering the money price of corn, lowers somewhat the money price of all other commodities, it gives the industry of the country where it takes place some advantage in all foreign markets, and thereby tends to encourage and increase that industry. But the extent of the home market for corn must be in proportion to the general industry of the country where it grows, or to the number of those who produce something else to give in exchange for corn. But in every country the home market, as it is the nearest and most convenient, so is it likewise the greatest and most important market for corn. That rise in the real value of silver, therefore, which is the effect of lowering the average money price of corn, tends to enlarge the greatest and most important market for corn, and thereby to encourage instead of discouraging its growth."

A high or low money price of corn, arising from the abundance and cheapness of gold and silver, is of no importance to the landlord, as every sort of produce would be equally affected, just as Adam Smith describes: but a relatively high price of corn is at all times greatly beneficial to the landlord; for, first, it gives him a greater quantity of corn for rent; and, secondly, for every equal measure of corn he will have a command, not only over a greater quantity of money, but over a greater quantity of every commodity which money can purchase.

## CHAPTER XXV.

### ON COLONIAL TRADE.

Adam Smith, in his observations on colonial trade, has shown most satisfactorily the advantages of a free trade, and the injustice suffered by colonies, in being prevented by their mother countries from selling their produce at the dearest market, and buying their manufactures and stores at the cheapest. He has shown, that by permitting every country freely to exchange the produce of its industry when and where it pleases, the best distribution of the labour of the world will be effected, and the greatest abundance of the necessaries and enjoyments of human life will be secured.

He has attempted also to show that this freedom of commerce, which undoubtedly promotes the interest of the whole, promotes also that of each particular country; and that the narrow policy adopted in the countries of Europe respecting their colonies is not less injurious to the mother countries themselves than to the colonies whose interests are sacrificed.

"The monopoly of the colony trade," he says, "like all the other mean and malignant expedients of the mercantile system, depresses the industry of all other countries, but chiefly that of the colonies, without in the least increasing, but, on the contrary, diminishing that of the country in whose favour it is established."

This part of his subject, however, is not treated in so clear and convincing a manner as that in which he shows the injustice of this system towards the colony.

It may, I think, be doubted whether a mother country may not sometimes be benefited by the restraints to which she subjects her colonial possessions. Who can doubt, for example, that if England were the colony of France, the latter country would be benefited by a heavy bounty paid by England on the exportation of corn, cloth, or any other commodities? In examining the question of bounties, on the supposition of corn being at 4*l.* per quarter in this country, we saw, that with a bounty of 10s. per quarter on exportation in England, corn would have been reduced to 3*l.* 10s. in France. Now, if corn had previously been at 3*l.* 15s. per quarter in France, the French consumers would have been benefited by 5s. per quarter on all imported corn; if the natural price of corn in

France were before 4*l.*, they would have gained the whole bounty of 10s. per quarter. France would thus be benefited by the loss sustained by England: she would not gain a part only of what England lost, but the whole.

It may, however, be said that a bounty on exportation is a measure of internal policy, and could not easily be imposed by the mother country.

If it would suit the interests of Jamaica and Holland to make an exchange of the commodities which they respectively produce, without the intervention of England, it is quite certain that, by their being prevented from so doing, the interests of Holland and Jamaica would suffer; but if Jamaica is obliged to send her goods to England, and there exchange them for Dutch goods, an English capital, or English agency, will be employed in a trade in which it would not otherwise be engaged. It is allured thither by a bounty, not paid by England, but by Holland and Jamaica.

That the loss sustained through a disadvantageous distribution of labour in two countries may be beneficial to one of them, while the other is made to suffer more than the loss actually belonging to such a distribution, has been stated by Adam Smith himself; which, if true, will at once prove that a measure which may be greatly hurtful to a colony may be partially beneficial to the mother country.

Speaking of treaties of commerce, he says, "When a nation binds itself by treaty, either to permit the entry of certain goods from one foreign country which it prohibits from all others, or to exempt the goods of one country from duties to which it subjects those of all others, the country, or at least the merchants and manufacturers of the country, whose commerce is so favoured, must necessarily derive great advantage from the treaty. Those merchants and manufacturers enjoy a sort of monopoly in the country which is so indulgent to them. That country becomes a market both more extensive and more advantageous for their goods; more extensive, because the goods of other nations, being either excluded or subjected to heavier duties, it takes off a greater quantity of them; more advantageous, because the merchants of the favoured country, enjoying a sort of monopoly there, will often sell their goods for a better price than if exposed to the free competition of all other nations."

Let the two nations between which the commercial treaty is made be the mother country and her colony, and Adam Smith, it is evident, admits that a mother country may be benefited by oppressing her colony. It may, however, be again remarked, that unless the monopoly of the foreign market be in the hands of an exclusive company, no more will be paid for commodities by foreign purchasers than by home purchasers; the price which they will both pay will not differ greatly from their natural price in the country where they are produced. England, for example, will, under ordinary circumstances, always be able to buy French goods

at the natural price of those goods in France, and France would have an equal privilege of buying English goods at their natural price in England. But at these prices goods would be bought without a treaty. Of what advantage or disadvantage, then, is the treaty to either party?

The disadvantage of the treaty to the importing country would be this: it would bind her to purchase a commodity, from England for example, at the natural price of that commodity in England, when she might perhaps have bought it at the much lower natural price of some other country. It occasions then a disadvantageous distribution of the general capital, which falls chiefly on the country bound by its treaty to buy in the least productive market; but it gives no advantage to the seller on account of any supposed monopoly, for he is prevented by the competition of his own countrymen from selling his goods above their natural price; at which he would sell them, whether he exported them to France, Spain, or the West Indies, or sold them for home consumption.

In what, then, does the advantage of the stipulation in the treaty consist? It consists in this: these particular goods could not have been made in England for exportation, but for the privilege which she alone had of serving this particular market; for the competition of that country, where the natural price was lower, would have deprived her of all chance of selling those commodities. This, however, would have been of little importance, if England were quite secure that she could sell to the same amount any other goods which she might fabricate, either in the French market, or with equal advantage in any other. The object which England has in view, is, for example, to buy a quantity of French wines of the value of 5000*l.*—she desires, then, to sell goods somewhere by which she may get 5000*l.* for this purpose. If France gives her a monopoly of the cloth market, she will readily export cloth for this purpose; but if the trade is free, the competition of other countries may prevent the natural price of cloth in England from being sufficiently low to enable her to get 5000*l.* by the sale of cloth, and to obtain the usual profits by such an employment of her stock. The industry of England must be employed, then, on some other commodity; but there may be none of her productions which, at the existing value of money, she can afford to sell at the natural price of other countries. What is the consequence? The wine drinkers of England are still willing to give 5000*l.* for their wine, and consequently 5000*l.* in money is exported to France for that purpose. By this exportation of money, its value is raised in England, and lowered in other countries; and with it the *natural price* of all commodities produced by British industry is also lowered. The advance in the value of money is the same thing as the decline in the price of commodities. To obtain 5000*l.*, British commodities may now be exported; for at their reduced natural price they may now enter into competition with the goods of other countries. More goods,

are sold, however, at the low prices to obtain the 5000*l.* required, which, when obtained, will not procure the same quantity of wine; because, whilst the diminution of money in England has lowered the natural price of goods there, the increase of money in France has raised the natural price of goods and wine in France. Less wine, then, will be imported into England, in exchange for its commodities, when the trade is perfectly free, than when she is peculiarly favoured by commercial treaties. The *rate* of profits, however, will not have varied; money will have altered in relative value in the two countries, and the advantage gained by France will be the obtaining a greater quantity of English, in exchange for a given quantity of French, goods, while the loss sustained by England will consist in obtaining a smaller quantity of French goods in exchange for a given quantity of those of England.

Foreign trade, then, whether fettered, encouraged, or free, will always continue, whatever may be the comparative difficulty of production in different countries; but it can only be regulated by altering the natural price, not the natural value, at which commodities can be produced in those countries, and that is effected by altering the distribution of the precious metals. This explanation confirms the opinion which I have elsewhere given, that there is not a tax, a bounty, or a prohibition, on the importation or exportation of commodities, which does not occasion a different distribution of the precious metals, and which does not, therefore, everywhere alter both the natural and the market price of commodities.

It is evident, then, that the trade with a colony may be so regulated, that it shall at the same time be less beneficial to the colony, and more beneficial to the mother country, than a perfectly free trade. As it is disadvantageous to a single consumer to be restricted in his dealings to one particular shop, so is it disadvantageous for a nation of consumers to be obliged to purchase of one particular country. If the shop or the country afforded the goods required the cheapest, they would be secure of selling them without any such exclusive privilege; and if they did not sell cheaper, the general interest would require that they should not be encouraged to continue a trade which they could not carry on at an equal advantage with others. The shop, or the selling country, might lose by the change of employments, but the general benefit is never so fully secured, as by the most productive distribution of the general capital; that is to say, by a universally free trade.

An increase in the cost of production of a commodity, if it be an article of the first necessity, will not necessarily diminish its consumption; for although the general power of the purchasers to consume is diminished by the rise of any one commodity, yet they may relinquish the consumption of some other commodity whose cost of production has not risen. In that case, the quantity supplied, and the quantity demanded, will be the same as before; the cost of production only will have increased, and yet the price will rise,

and must rise, to place the profits of the producer of the enhanced commodity on a level with the profits derived from other trades.

M. Say acknowledges that the cost of production is the foundation of price, and yet in various parts of his book he maintains that price is regulated by the proportion which demand bears to supply. The real and ultimate regulator of the relative value of any two commodities, is the cost of their production, and not the respective quantities which may be produced, nor the competition amongst the purchasers.

According to Adam Smith, the colony trade, by being one in which British capital only can be employed, has raised the rate of profits of all other trades; and as, in his opinion, high profits, as well as high wages, raise the prices of commodities, the monopoly of the colony trade has been, he thinks, injurious to the mother country; as it has diminished her power of selling manufactured commodities as cheap as other countries. He says, that "in consequence of the monopoly, the increase of the colony trade has not so much occasioned an addition to the trade which Great Britain had before, as a total change in its direction. Secondly, this monopoly has necessarily contributed to keep up the rate of profit in all the different branches of British trade, higher than it naturally would have been, had all nations been allowed a free trade to the British colonies." "But whatever raises in any country the ordinary rate of profit higher than it otherwise would be, necessarily subjects that country both to an absolute, and to a relative disadvantage in every branch of trade of which she has not the monopoly. It subjects her to an absolute disadvantage, because in such branches of trade, her merchants cannot get this greater profit without selling dearer than they otherwise would do, both the goods of foreign countries which they import into their own, and the goods of their own country which they export to foreign countries. Their own country must both buy dearer and sell dearer; must both buy less and sell less; must both enjoy less and produce less than she otherwise would do."

"Our merchants frequently complain of the high wages of British labour as the cause of their manufactures being undersold in foreign markets; but they are silent about the high profits of stock. They complain of the extravagant gain of other people, but they say nothing of their own. The high profits of British stock, however, may contribute towards raising the price of British manufacture in many cases as much, and in some perhaps more, than the high wages of British labour."

I allow that the monopoly of the colony trade will change, and often prejudicially, the direction of capital; but from what I have already said on the subject of profits, it will be seen that any change from one foreign trade to another, or from home to foreign trade, cannot, in my opinion, affect the rate of profits. The injury suffered will be what I have just described; there will be a worse

distribution of the general capital and industry, and, therefore, less will be produced. The natural price of commodities will be raised, and therefore, though the consumer will be able to purchase to the same money value, he will obtain a less quantity of commodities. It will be seen, too, that if it even had the effect of raising profits, it would not occasion the least alteration in prices; prices being regulated neither by wages nor profits.

And does not Adam Smith agree in this opinion, when he says, that "the prices of commodities, or the value of gold and silver as compared with commodities, depends upon the proportion between the *quantity of labour* which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary to bring thither a certain quantity of any other sort of goods?" That quantity will not be affected, whether profits be high or low, or wages low or high. How then can prices be raised by high profits?

## CHAPTER XXVI.

### ON GROSS AND NET REVENUE.

Adam Smith constantly magnifies the advantages which a country derives from a large gross, rather than a large net income. "In proportion as a greater share of the capital of a country is employed in agriculture," he says, "the greater will be the quantity of productive labour which it puts into motion within the country; as will likewise be the value which its employment adds to the annual produce of the land and labour of the society. After agriculture, the capital employed in manufactures puts into motion the greatest quantity of productive labour, and adds the greatest value to the annual produce. That which is employed in the trade of exportation has the least effect of any of the three."*

Granting, for a moment, that this were true; what would be the advantage resulting to a country from the employment of a great quantity of productive labour, if, whether it employed that quantity or a smaller, its net rent and profits together would be the same. The whole produce of the land and labour of every country is divided into three portions: of these, one portion is devoted to wages, another to profits, and the other to rent. It is from the two last portions only, that any deductions can be made for taxes, or for savings; the former, if moderate, constituting always the necessary expenses of production.† To an individual with a capital of 20,000*l.*, whose profits were 2000*l.* per annum, it would be a matter quite indifferent whether his capital would employ a hundred or a thousand men, whether the commodity produced, sold for 10,000*l.* or for 20,000*l.*, provided, in all cases, his profits were not diminished below 2000*l.* Is not the real interest of the nation similar? Provided

* M. Say is of the same opinion with Adam Smith: "The most productive employment of capital, for the country in general, after that on the land, is that of manufactures and of home trade; because it puts in activity an industry of which the profits are gained in the country, while those capitals which are employed in foreign commerce, make the industry and lands of all countries to be productive, without distinction.

"The employment of capital the least favourable to a nation, is that of carrying the produce of one foreign country to another."—*Say*, vol. ii. p. 120.

† Perhaps this is expressed too strongly, as more is generally allotted to the labourer under the name of wages, than the absolutely necessary expenses of production. In that case a part of the net produce of the country is received by the labourer, and may be saved or expended by him; or it may enable him to contribute to the defence of the country.

its net real income, its rent and profits be the same, it is of no importance whether the nation consists of ten or of twelve millions of inhabitants. Its power of supporting fleets and armies, and all species of unproductive labour, must be in proportion to its net, and not in proportion to its gross, income. If five millions of men could produce as much food and clothing as was necessary for ten millions, food and clothing for five millions would be the net revenue. Would it be of any advantage to the country, that to produce this same net revenue, seven millions of men should be required, that is to say, that seven millions should be employed to produce food and clothing sufficient for twelve millions? The food and clothing of five millions would be still the net revenue. The employing a greater number of men would enable us neither to add a man to our army and navy, nor to contribute one guinea more in taxes.

It is not on the grounds of any supposed advantage accruing from a large population, or of the happiness that may be enjoyed by a greater number of human beings, that Adam Smith supports the preference of that employment of capital, which gives motion to the greatest quantity of industry, but expressly on the ground of its increasing the power of the country,* for he says, that "the riches, and, so far as power depends upon riches, the power of every country must always be in proportion to the value of its annual produce, the fund from which all taxes must ultimately be paid." It must, however, be obvious, that the power of paying taxes, is in proportion to the net, and not in proportion to the gross, revenue.

In the distribution of employments amongst all countries, the capital of poorer nations will be naturally employed in those pursuits, wherein a great quantity of labour is supported at home, because in such countries the food and necessaries for an increasing population can be most easily procured. In rich countries, on the contrary, where food is dear, capital will naturally flow, when trade is free, into those occupations wherein the least quantity of labour is required to be maintained at home: such as the carrying trade, the distant foreign trade, and trades where expensive machinery is required; to trades where profits are in proportion to the capital, and not in proportion to the quantity of labour employed.†

Although I admit, that, from the nature of rent, a given capital employed in agriculture, on any but the land last cultivated, puts in motion a greater quantity of labour than an equal capital

* M. Say has totally misunderstood me in supposing that I have considered as nothing the happiness of so many human beings. I think the text sufficiently shows that I was confining my remarks to the particular grounds on which Adam Smith had rested it.

† "It is fortunate that the natural course of things draws capital, not to those employments where the greatest profits are made, but to those where the operation is most profitable to the community."—Vol. ii. p. 122. M. Say has not told us what those employments are, which, while they are the most profitable to the individual, are not the most profitable to the State. If countries with limited capitals, but with abundance of fertile land, do not early engage in foreign trade, the reason is, because it is less profitable to individuals, and therefore also less profitable to the State.

employed in manufactures and trade, yet I cannot admit that there is any difference in the quantity of labour employed by a capital engaged in the home trade, and an equal capital engaged in the foreign trade.

"The capital which sends Scotch manufactures to London, and brings back English corn and manufactures to Edinburgh," says Adam Smith, "necessarily replaces, by every such operation, two British capitals which had both been employed in the agriculture or manufactures of Great Britain.

"The capital employed in purchasing foreign goods for home consumption, when this purchase is made with the produce of domestic industry, replaces, too, by every such operation, two distinct capitals; but one of them only is employed in supporting domestic industry. The capital which sends British goods to Portugal, and brings back Portuguese goods to Great Britain, replaces, by every such operation, only one British capital, the other is a Portuguese one. Though the returns, therefore, of the foreign trade of consumption should be as quick as the home trade, the capital employed in it will give but one half the encouragement to the industry or productive labour of the country."

This argument appears to me to be fallacious; for though two capitals, one Portuguese and one English, be employed, as Dr Smith supposes, still a capital will be employed in the foreign trade, double of what would be employed in the home trade. Suppose that Scotland employs a capital of a thousand pounds in making linen, which she exchanges for the produce of a similar capital employed in making silks in England, two thousand pounds and a proportional quantity of labour will be employed by the two countries. Suppose now, that England discovers, that she can import more linen from Germany, for the silks which she before exported to Scotland, and that Scotland discovers that she can obtain more silks from France in return for her linen, than she before obtained from England,—will not England and Scotland immediately cease trading with each other, and will not the home trade of consumption be changed for a foreign trade of consumption? But although two additional capitals will enter into this trade, the capital of Germany and that of France, will not the same amount of Scotch and of English capital continue to be employed, and will it not give motion to the same quantity of industry as when it was engaged in the home trade?

## CHAPTER XXVII.

### ON CURRENCY AND BANKS

So much has already been written on currency, that of those who give their attention to such subjects, none but the prejudiced are ignorant of its true principles. I shall, therefore, take only a brief survey of some of the general laws which regulate its quantity and value.

Gold and silver, like all other commodities, are valuable only in proportion to the quantity of labour necessary to produce them and bring them to market. Gold is about fifteen times dearer than silver, not because there is a greater demand for it, nor because the supply of silver is fifteen times greater than that of gold, but solely because fifteen times the quantity of labour is necessary to procure a given quantity of it.

The quantity of money that can be employed in a country must depend on its value: if gold alone were employed for the circulation of commodities, a quantity would be required, one fifteenth only of what would be necessary, if silver were made use of for the same purpose.

A circulation can never be so abundant as to overflow; for by diminishing its value, in the same proportion you will increase its quantity, and by increasing its value, diminish its quantity.

While the State coins money, and charges no seignorage, money will be of the same value as any other piece of the same metal of equal weight and fineness; but if the State charges a seignorage for coinage, the coined piece of money will generally exceed the value of the uncoined piece of metal by the whole seignorage charged, because it will require a greater quantity of labour, or, which is the same thing, the value of the produce of a greater quantity of labour, to procure it.

While the State alone coins, there can be no limit to this charge of seignorage; for by limiting the quantity of coin, it can be raised to any conceivable value.

It is on this principle that paper money circulates: the whole charge for paper money may be considered as seignorage. Though it has no intrinsic value, yet, by limiting its quantity, its value in exchange

is as great as an equal denomination of coin, or of bullion in that coin. On the same principle, too, namely, by a limitation of its quantity, a debased coin would circulate at the value it should bear, if it were of the legal weight and fineness, and not at the value of the quantity of metal which it actually contained. In the history of the British coinage, we find, accordingly, that the currency was never depreciated in the same proportion that it was debased; the reason of which was, that it never was increased in quantity, in proportion to its diminished intrinsic value.*

There is no point more important in issuing paper money than to be fully impressed with the effects which follow from the principle of limitation of quantity. It will scarcely be believed fifty years hence, that bank directors and ministers gravely contended in our times, both in Parliament and before committees of Parliament, that the issues of notes by the Bank of England, unchecked by any power in the holders of such notes to demand in exchange either specie or bullion, had not, nor could have, any effect on the prices of commodities, bullion, or foreign exchanges.

After the establishment of banks, the State has not the sole power of coining or issuing money. The currency may as effectually be increased by paper as by coin; so that if a State were to debase its money, and limit its quantity, it could not support its value, because the banks would have an equal power of adding to the whole quantity of circulation.

On these principles, it will be seen that it is not necessary that paper money should be payable in specie to secure its value; it is only necessary that its quantity should be regulated according to the value of the metal which is declared to be the standard. If the standard were gold of a given weight and fineness, paper might be increased with every fall in the value of gold, or, which is the same thing in its effects, with every rise in the price of goods.

"By issuing too great a quantity of paper," says Dr Smith, "of which the excess was continually returning in order to be exchanged for gold and silver, the Bank of England was, for many years together, obliged to coin gold to the extent of between eight hundred thousand pounds and a million a year, or, at an average, about eight hundred and fifty thousand pounds. For this great coinage, the Bank, in consequence of the worn and degraded state into which the gold coin had fallen a few years ago, was frequently obliged to purchase bullion at the high price of four pounds an ounce, which it soon after issued in coin at 3*l.* 17s. 10½d. an ounce, losing in this manner between two and a half and three per cent. upon the coinage of so very large a sum. Though the bank, therefore, paid no seignorage, though the Government was properly at the expense of the coinage, this liberality of Government did not prevent altogether the expense of the Bank."

* Whatever I say of gold coin, is equally applicable to silver coin; but it is not necessary to mention both on every occasion.

On the principle above stated, it appears to me most clear, that by not re-issuing the paper thus brought in, the value of the whole currency, of the degraded as well as the new gold coin, would have been raised, when all demands on the Bank would have ceased.

Mr Buchanan, however, is not of this opinion, for he says "that the great expense to which the Bank was at this time exposed was occasioned, not as Dr Smith seems to imagine, by an imprudent issue of paper, but by the debased state of the currency, and the consequent high price of bullion. The Bank, it will be observed, having no other way of procuring guineas but by sending bullion to the Mint to be coined, was always forced to issue new coined guineas, in exchange for its returned notes; and when the currency was generally deficient in weight, and the price of bullion high in proportion, it became profitable to draw these heavy guineas from the Bank in exchange for its paper; to convert them into bullion, and to sell them with a profit for Bank paper, to be again returned to the Bank for a new supply of guineas, which were again melted and sold. To this drain of specie the Bank must always be exposed while the currency is deficient in weight, as both an easy and a certain profit then arises from the constant interchange of paper for specie. It may be remarked, however, that to whatever inconvenience and expense the Bank was then exposed by the drain of its specie, it never was imagined necessary to rescind the obligation to pay money for its notes."

Mr Buchanan evidently thinks that the whole currency must necessarily be brought down to the level of the value of the debased pieces; but surely, by a diminution of the quantity of the currency, the whole that remains can be elevated to the value of the best pieces.

Dr Smith appears to have forgotten his own principle in his argument on colony currency. Instead of ascribing the depreciation of that paper to its too great abundance, he asks whether, allowing the colony security to be perfectly good, a hundred pounds, payable fifteen years hence, would be equally valuable with a hundred pounds to be paid immediately? I answer yes, if it be not too abundant.

Experience, however, shows that neither a State nor a Bank ever have had the unrestricted power of issuing paper money without abusing that power: in all States, therefore, the issue of paper money ought to be under some check and control; and none seems so proper for that purpose as that of subjecting the issuers of paper money to the obligation of paying their notes either in gold coin or bullion.

[" To secure the public* against any other variations in the value of currency than those to which the standard itself is subject, an

* This, and the following paragraphs, to the close of the bracket, p. 218, is extracted from a pamphlet entitled "Proposals for an Economical and Secure Currency," published by the author in the year 1816.

at the same time, to carry on the circulation with a medium the least expensive, is to attain the most perfect state to which a currency can be brought, and we should possess all these advantages by subjecting the Bank to the delivery of uncoined gold or silver at the Mint standard and price, in exchange for their notes, instead of the delivery of guineas; by which means paper would never fall below the value of bullion without being followed by a reduction of its quantity. To prevent the rise of paper above the value of bullion, the Bank should be also obliged to give their paper in exchange for standard gold at the price of 3*l.* 17s. per ounce. Not to give too much trouble to the Bank, the quantity of gold to be demanded in exchange for paper at the Mint price of 3*l.* 17s. 10½d., or the quantity to be sold to the Bank at 3*l.* 17s., should never be less than twenty ounces. In other words, the Bank should be obliged to purchase any quantity of gold that was offered them, not less than twenty ounces, at 3*l.* 17s.* per ounce, and to sell any quantity that might be demanded at 3*l.* 17s. 10½d. While they have the power of regulating the quantity of their paper, there is no possible inconvenience that could result to them from such a regulation.

"The most perfect liberty should be given, at the same time, to export or import every description of bullion. These transactions in bullion would be very few in number, if the Bank regulated their loans and issues of paper by the criterion which I have so often mentioned, namely, the price of standard bullion, without attending to the absolute quantity of paper in circulation.

"The object which I have in view would be in a great measure attained, if the Bank were obliged to deliver uncoined bullion, in exchange for their notes, at the Mint price and standard, though they were not under the necessity of purchasing any quantity of bullion offered them at the prices to be fixed, particularly if the Mint were to continue open to the public for the coinage of money; for that regulation is merely suggested to prevent the value of money from varying from the value of bullion more than the trifling difference between the prices at which the Bank should buy and sell, and which would be an approximation to that uniformity in its value, which is acknowledged to be so desirable.

"If the Bank capriciously limited the quantity of their paper, they would raise its value, and gold might appear to fall below the limits at which I propose the Bank should purchase. Gold, in that case, might be carried to the Mint, and the money returned from thence, being added to the circulation, would have the effect of

* The price of 3*l.* 17s. here mentioned is of course an arbitrary price. There might be good reason, perhaps, for fixing it either a little above or a little below. In naming 3*l.* 17s., I wish only to elucidate the principle. The price ought to be so fixed as to make it the interest of the seller of gold rather to sell it to the Bank than to carry it to the Mint to be coined.

The same remark applies to the specified quantity of twenty ounces. There might be good reason for making it ten or thirty.

lowering its value, and making it again conform to the standard; but it would neither be done so safely, so economically, nor so expeditiously as by the means which I have proposed, against which the Bank can have no objection to offer, as it is for their interest to furnish the circulation with paper rather than oblige others to furnish it with coin

"Under such a system, and with a currency so regulated, the Bank would never be liable to any embarrassments whatever, excepting on those extraordinary occasions when a general panic seizes the country, and when every one is desirous of possessing the precious metals as the most convenient mode of realizing or concealing his property. Against such panics Banks have no security *on any system;* from their very nature they are subject to them, as at no time can there be in a Bank, or in a country, so much specie or bullion as the monied individuals of such country have a right to demand. Should every man withdraw his balance from his banker on the same day, many times the quantity of Bank notes now in circulation would be insufficient to answer such a demand. A panic of this kind was the cause of the crisis in 1797; and not, as has been supposed, the large advances which the Bank had then made to Government. Neither the Bank nor Government were at that time to blame; it was the contagion of the unfounded fears of the timid part of the community which occasioned the run on the Bank, and it would equally have taken place if they had not made any advances to Government, and had possessed twice their present capital. If the Bank had continued paying in cash, probably the panic would have subsided before their coin had been exhausted.

"With the known opinion of the Bank directors as to the rule for issuing paper money, they may be said to have exercised their powers without any great indiscretion. It is evident that they have followed their own principle with extreme caution. In the present state of the law, they have the power, without any control whatever, of increasing or reducing the circulation in any degree they may think proper; a power which should neither be intrusted to the State itself, nor to anybody in it, as there can be no security for the uniformity in the value of the currency, when its augmentation or diminution depends solely on the will of the issuers. That the Bank have the power of reducing the circulation to the very narrowest limits, will not be denied, even by those who agree in opinion with the directors, that they have not the power of adding indefinitely to its quantity. Though I am fully assured, that it is both against the interest and the wish of the Bank to exercise this power to the detriment of the public, yet, when I contemplate the evil consequences which might ensue from a sudden and great reduction of the circulation, as well as from a great addition to it, I cannot but deprecate the facility with which the State has armed the Bank with so formidable a prerogative.

"The inconvenience to which country banks were subjected before the restriction on cash payments, must at times have been very great. At all periods of alarm, or of expected alarm, they must have been under the necessity of providing themselves with guineas, that they might be prepared for every exigency which might occur. Guineas, on these occasions, were obtained at the Bank in exchange for the larger notes, and were conveyed by some confidential agent, at expense and risk, to the country bank. After performing the offices to which they were destined, they found their way again to London, and in all probability were again lodged in the Bank, provided they had not suffered such a loss of weight as to reduce them below the legal standard.

"If the plan now proposed of paying Bank notes in bullion be adopted, it would be necessary either to extend the same privilege to country banks, or to make Bank notes a legal tender, in which latter case there would be no alteration in the law respecting country banks, as they would be required, precisely as they now are, to pay their notes when demanded in Bank of England notes.

"The saving which would take place from not submitting the guineas to the loss of weight from the friction which they must undergo in their repeated journeys, as well as of the expenses of conveyance, would be considerable; but by far the greatest advantage would result from the permanent supply of the country as well as of the London circulation, as far as the smaller payments are concerned, being provided in the very cheap medium, paper, instead of the very valuable medium, gold; thereby enabling the country to derive all the profit which may be obtained by the productive employment of a capital to that amount. We should surely not be justified in rejecting so decided a benefit unless some specific inconvenience could be pointed out as likely to follow from adopting the cheaper medium."]

A currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold which it professes to represent. The use of paper instead of gold substitutes the cheapest in place of the most expensive medium, and enables the country, without loss to any individual, to exchange all the gold which it before used for this purpose for raw materials, utensils, and food; by the use of which, both its wealth and its enjoyments are increased.

In a national point of view, it is of no importance whether the issuers of this well regulated paper money be the Government or a Bank, it will, on the whole, be equally productive of riches whether it be issued by one or by the other; but it is not so with respect to the interest of individuals. In a country where the market rate of interest is 7 per cent., and where the State requires for a particular expense 70,000*l.* per annum, it is a question of importance to the individuals of that country whether they must be taxed to pay this 70,000*l.* per annum, or whether they could raise it without taxes.

Suppose that a million of money should be required to fit out an expedition. If the State issued a million of paper and displaced a million of coin, the expedition would be fitted out without any charge to the people; but if a Bank issued a million of paper, and lent it to Government at 7 per cent., thereby displacing a million of coin, the country would be charged with a continual tax of 70,000*l.* per annum: the people would pay the tax, the Bank would receive it, and the society would in either case be as wealthy as before; the expedition would have been really fitted out by the improvement of our system, by rendering capital of the value of a million productive in the form of commodities instead of letting it remain unproductive in the form of coin; but the advantage would always be in favour of the issuers of paper; and as the State represents the people, the people would have saved the tax if they, and not the Bank, had issued this million.

I have already observed, that if there were perfect security that the power of issuing paper money would not be abused, it would be of no importance with respect to the riches of the country collectively, by whom it was issued; and I have now shown that the public would have a direct interest that the issuers should be the State, and not a company of merchants or bankers. The danger, however, is, that this power would be more likely to be abused, if in the hands of Government, than if in the hands of a banking company. A company would, it is said, be more under the control of law, and although it might be their interest to extend their issues beyond the bounds of discretion, they would be limited and checked by the power which individuals would have of calling for bullion or specie. It is argued that the same check would not be long respected, if Government had the privilege of issuing money; that they would be too apt to consider present convenience, rather than future security, and might, therefore, on the alleged grounds of expediency, be too much inclined to remove the checks, by which the amount of their issues was controlled.

Under an arbitrary Government, this objection would have great force; but in a free country, with an enlightened legislature, the power of issuing paper money, under the requisite checks of convertibility at the will of the holder, might be safely lodged in the hands of commissioners appointed for that special purpose, and they might be made totally independent of the control of ministers.

The sinking fund is managed by commissioners, responsible only to parliament, and the investment of the money entrusted to their charge proceeds with the utmost regularity; what reason can there be to doubt that the issues of paper money might be regulated with equal fidelity, if placed under similar management?

It may be said, that although the advantage accruing to the State, and, therefore, to the public, from issuing paper money, is sufficiently manifest, as it would exchange a portion of the national debt, on which interest is paid by the public, into a debt bearing

no interest: yet it would be disadvantageous to commerce, as it would preclude the merchants from borrowing money, and getting their bills discounted, the method in which Bank paper is partly issued.

This, however, is to suppose that money could not be borrowed, if the Bank did not lend it, and that the market rate of interest and profit depends on the amount of the issues of money, and on the channel through which it is issued But as a country would have no deficiency of cloth, of wine, or any other commodity, if they had the means of paying for it, in the same manner neither would there be any deficiency of money to be lent, if the borrowers offered good security, and were willing to pay the market rate of interest for it.

In another part of this work, I have endeavoured to show, that the real value of a commodity is regulated, not by the accidental advantages which may be enjoyed by some of its producers, but by the real difficulties encountered by that producer who is least favoured. It is so with respect to the interest for money; it is not regulated by the rate at which the Bank will lend, whether it be 5, 4, or 3 per cent., but by the rate of profits which can be made by the employment of capital, and which is totally independent of the quantity, or of the value of money. Whether a Bank lent one million, ten million, or a hundred millions, they would not permanently alter the market rate of interest; they would alter only the value of the money which they thus issued. In one case, ten or twenty times more money might be required to carry on the same business, than what might be required in the other. The applications to the Bank for money, then, depend on the comparison between the rate of profits that may be made by the employment of it, and the rate at which they are willing to lend it. If they charge less than the market rate of interest, there is no amount of money which they might not lend,—if they charge more than that rate, none but spendthrifts and prodigals would be found to borrow of them. We accordingly find, that when the market rate of interest exceeds the rate of 5 per cent. at which the Bank uniformly lend, the discount office is besieged with applicants for money; and, on the contrary, when the market rate is even temporarily under 5 per cent., the clerks of that office have no employment.

The reason, then, why for the last twenty years the Bank is said to have given so much aid to commerce, by assisting the merchants with money, is because they have, during that whole period, lent money below the market rate of interest; below that rate at which the merchants could have borrowed elsewhere; but I confess that to me this seems rather an objection to their establishment than an argument in favour of it.

What should we say of an establishment which should regularly supply half the clothiers with wool under the market price? Of what benefit would it be to the community? It would not extend our trade, because the wool would equally have been bought if they

had charged the market price for it. It would not lower the price of cloth to the consumer, because the price, as I have said before, would be regulated by the cost of its production to those who were the least favoured. Its sole effect, then, would be to swell the profits of a part of the clothiers beyond the general and common rate of profits. The establishment would be deprived of its fair profits, and another part of the community would be in the same degree benefited. Now, this is precisely the effect of our banking establishments; a rate of interest is fixed by the law below that at which it can be borrowed in the market, and at this rate the Bank are required to lend, or not to lend at all. From the nature of their establishment, they have large funds which they can only dispose of in this way; and a part of the traders of the country are unfairly, and, for the country, unprofitably benefited, by being enabled to supply themselves with an instrument of trade, at a less charge than those who must be influenced only by a market price.

The whole business which the whole community can carry on depends on the quantity of its capital, that is, of its raw material, machinery, food, vessels, &c., employed in production. After a well regulated paper money is established, these can neither be increased nor diminished by the operations of banking. If, then, the State were to issue the paper money of the country, although it should never discount a bill, or lend one shilling to the public, there would be no alteration in the amount of trade; for we should have the same quantity of raw materials, of machinery, food, and ships; and it is probable, too, that the same amount of money might be lent, not always at 5 per cent., indeed, a rate fixed by law, when that might be under the market rate, but at 6, 7, or 8 per cent., the result of the fair competition in the market between the lenders and the borrowers.

Adam Smith speaks of the advantages derived by merchants from the superiority of the Scotch mode of affording accommodation to trade, over the English mode, by means of cash accounts. These cash accounts are credits given by the Scotch banker to his customers, in addition to the bills which he discounts for them; but, as the banker, in proportion as he advances money and sends it into circulation in one way, is debarred from issuing so much in the other, it is difficult to perceive in what the advantage consists. If the whole circulation will bear only one million of paper, one million only will be circulated; and it can be of no real importance either to the banker or merchant, whether the whole be issued in discounting bills, or a part be so issued, and the remainder be issued by means of these cash accounts.

It may perhaps be necessary to say a few words on the subject of the two metals, gold and silver, which are employed in currency, particularly as this question appears to perplex, in many people's minds, the plain and simple principles of currency. "In England,"

says Dr Smith, "gold was not considered as a legal tender for a long time after it was coined into money. The proportion between the values of gold and silver money was not fixed by any public law or proclamation, but was left to be settled by the market. If a debtor offered payment in gold, the creditor might either reject such payment altogether, or accept of it at such a valuation of the gold as he and his debtor could agree upon."

In this state of things it is evident that a guinea might sometimes pass for 22s. or more, and sometimes for 18s. or less, depending entirely on the alteration in the relative market value of gold and silver. All the variations, too, in the value of gold, as well as in the value of silver, would be rated in the gold coin,—it would appear as if silver was invariable, and as if gold only was subject to rise and fall. Thus, although a guinea passed for 22s. instead of 18s., gold might not have varied in value; the variation might have been wholly confined to the silver, and therefore 22s. might have been of no more value than 18s. were before. And, on the contrary, the whole variation might have been in the gold; a guinea which was worth 18s. might have risen to the value of 22s.

If, now, we suppose this silver currency to be debased by clipping, and also increased in quantity, a guinea might pass for 30s.; for the silver in 30s. of such debased money might be of no more value than the gold in one guinea. By restoring the silver currency to its Mint value, silver money would rise; but it would appear as if gold fell, for a guinea would probably be of no more value than 21 of such good shillings.

If now gold be also made a legal tender, and every debtor be at liberty to discharge a debt by the payment of 420 shillings, or twenty guineas for every 21*l.* that he owes, he will pay in one or the other according as he can most cheaply discharge his debt. If with five quarters of wheat he can procure as much gold bullion as the Mint will coin into twenty guineas, and for the same wheat as much silver bullion as the Mint will coin for him into 430 shillings, he will prefer paying in silver, because he would be a gainer of ten shillings by so paying his debt. But if, on the contrary, he could obtain with this wheat as much gold as would be coined into twenty guineas and a half, and as much silver only as would coin into 420 shillings, he would naturally prefer paying his debt in gold. If the quantity of gold which he could procure could be coined only into twenty guineas, and the quantity of silver into 420 shillings, it would be a matter of perfect indifference to him in which money, silver or gold, it was that he paid his debt. It is not, then, a matter of chance; it is not because gold is better fitted for carrying on the circulation of a rich country, that gold is ever preferred for the purpose of paying debts, but simply because it is the interest of the debtor so to pay them.

During a long period previous to 1797, the year of the restriction on the Bank payments in coin, gold was so cheap, compared

with silver, that it suited the Bank of England, and all other debtors, to purchase gold in the market, and not silver, for the purpose of carrying it to the Mint to be coined, as they could in that coined metal more cheaply discharge their debts. The silver currency was, during a great part of this period, very much debased; but it existed in a degree of scarcity, and therefore, on the principle which I have before explained, it never sunk in its current value. Though so debased, it was still the interest of debtors to pay in the gold coin. If, indeed, the quantity of this debased silver coin had been enormously great, or if the Mint had issued such debased pieces, it might have been the interest of debtors to pay in this debased money; but its quantity was limited, and it sustained its value, and, therefore, gold was in practice the real standard of currency.

That it was so, is nowhere denied; but it has been contended, that it was made so by the law, which declared that silver should not be a legal tender for any debt exceeding 25*l.*, unless by weight, according to the Mint standard.

But this law did not prevent any debtor from paying his debt, however large its amount, in silver currency fresh from the Mint; that the debtor did not pay in this metal was not a matter of chance nor a matter of compulsion, but wholly the effect of choice; it did not suit him to take silver to the Mint, it did suit him to take gold thither. It is probable, that if the quantity of this debased silver in circulation had been enormously great, and also a legal tender, that a guinea would have been again worth thirty shillings; but it would have been the debased shilling that would have fallen in value, and not the guinea that had risen.

It appears, then, that whilst each of the two metals was equally a legal tender for debts of any amount, we were subject to a constant change in the principal standard measure of value. It would sometimes be gold, sometimes silver, depending entirely on the variations in the relative value of the two metals; and at such times the metal, which was not the standard, would be melted and withdrawn from circulation, as its value would be greater in bullion than in coin. This was an inconvenience which it was highly desirable should be remedied; but so slow is the progress of improvement, that although it had been unanswerably demonstrated by Mr Locke, and had been noticed by all writers on the subject of money since his day, a better system was never adopted till the session of Parliament 1816, when it was enacted that gold only should be a legal tender for any sum exceeding forty shillings.

Dr Smith does not appear to have been quite aware of the effect of employing two metals as currency, and both a legal tender for debts of any amount; for he says, that "in reality, during the continuance of any one regulated proportion between the respective values of the different metals in coin, the value of the most precious metal regulates the value of the whole coin." Because gold was in

his day the medium in which it suited debtors to pay their debts, he thought that it had some inherent quality by which it did then, and always would, regulate the value of silver coin.

On the reformation of the gold coin in 1774, a new guinea fresh from the Mint would exchange for only twenty-one debased shillings; but in the reign of King William, when the silver coin was in precisely the same condition, a guinea also new and fresh from the Mint would exchange for thirty shillings. On this Mr Buchanan observes, "here, then, is a most singular fact, of which the common theories of currency offer no account; the guinea exchanging at one time for thirty shillings, its intrinsic worth in a debased silver currency, and afterwards the same guinea exchanged for only twenty-one of those debased shillings. It is clear that some great change must have intervened in the state of the currency between these two different periods, of which Dr Smith's hypothesis offers no explanation."

It appears to me that the difficulty may be very simply solved by referring this different state of the value of the guinea at the two periods mentioned to the different *quantities* of debased silver currency in circulation. In King William's reign gold was not a legal tender; it passed only at a conventional value. All the large payments were probably made in silver, particularly as paper currency and the operations of banking were then little understood. The quantity of this debased silver money exceeded the quantity of silver money which would have been maintained in circulation if nothing but undebased money had been in use; and, consequently, it was depreciated as well as debased. But in the succeeding period, when gold was a legal tender, when Bank notes also were used in effecting payments, the quantity of debased silver money did not exceed the quantity of silver coin fresh from the mint which would have circulated if there had been no debased silver money; hence, though the money was debased it was not depreciated. Mr Buchanan's explanation is somewhat different; he thinks that a subsidiary currency is not liable to depreciation, but that the main currency is. In King William's reign silver was the main currency, and hence was liable to depreciation. In 1774 it was a subsidiary currency, and, therefore, maintained its value. Depreciation, however, does not depend on a currency being the subsidiary or the main currency, it depends wholly on its being in excess of quantity.*

* It has lately been contended in Parliament by Lord Lauderdale, that, with the existing Mint regulation, the Bank could not pay their notes in specie, because the relative value of the two metals is such, that it would be for the interest of all debtors to pay their debts with silver and not with gold coin, while the law gives a power to all the creditors of the Bank to demand gold in exchange for Bank notes. This gold, his Lordship thinks, could be profitably exported, and if so, he contends that the Bank, to keep a supply, will be obliged to buy gold constantly at a premium and sell it at par. If every other debtor could pay in silver, Lord Lauderdale would be right; but he cannot do so if his debt exceed 40s. This, then, would limit the amount of silver coin in circulation (if Government had not reserved to itself the power to stop the

To a moderate seignorage on the coinage of money there cannot be much objection, particularly on that currency which is to effect the smaller payments. Money is generally enhanced in value to the full amount of the seignorage, and, therefore, it is a tax which in no way affects those who pay it, while the quantity of money is not in excess. It must, however, be remarked, that in a country where a paper currency is established, although the issuers of such paper should be liable to pay it in specie on the demand of the holder, still, both their notes and the coin might be depreciated to the full amount of the seignorage on that coin, which is alone the legal tender, before the check, which limits the circulation of paper, would operate. If the seignorage of gold coin were 5 per cent. for instance, the currency, by an abundant issue of Bank notes, might be really depreciated 5 per cent. before it would be the interest of the holders to demand coin for the purpose of melting it into bullion; a depreciation to which we should never be exposed, if either there was no seignorage on the gold coin; or, if a seignorage were allowed, the holders of Bank notes might demand bullion, and not coin, in exchange for them, at the Mint price of 3*l.* 17s. 10½d. Unless, then, the Bank should be obliged to pay their notes in bullion or coin, at the will of the holder, the late law which allows a seignorage of 6 per cent., or fourpence per oz., on the silver coin, but which directs that gold shall be coined by the Mint without any charge whatever, is perhaps the most proper, as it will most effectually prevent any unnecessary variation of the currency.

coinage of that metal whenever they might think it expedient); because if too much silver were coined it would sink in relative value to gold, and no man would accept it in payment for a debt exceeding 40s., unless a compensation were made for its lower value. To pay a debt of 100*l.*, 100 sovereigns, or bank notes to the amount of 100*l.*, would be necessary, but 105*l.* in silver coin might be required, if there were too much silver in circulation. There are, then, two checks against an excessive quantity of silver coin; first, the direct check which Government may at any time interpose to prevent more from being coined: secondly, no motive of interest would lead any one to take silver to the Mint, if he might do so, for if it were coined, it would not pass current at its Mint but only at its market value.

## CHAPTER XXVIII.

### ON THE COMPARATIVE VALUE OF GOLD, CORN, AND LABOUR IN RICH AND POOR COUNTRIES.

"Gold and silver, like all other commodities," says Adam Smith, "naturally seek the market where the best price is given for them; and the best price is commonly given for every thing in the country which can best afford it. Labour, it must be remembered, is the ultimate price which is paid for every thing; and in countries where labour is equally well rewarded, the money price of labour will be in proportion to that of the subsistence of the labourer. But gold and silver will naturally exchange for a greater quantity of subsistence in a rich than in a poor country; in a country which abounds with subsistence, than in one which is but indifferently supplied with it."

But corn is a commodity, as well as gold, silver, and other things; if all commodities, therefore, have a high exchangeable value in a rich country, corn must not be excepted; and hence we might correctly say, that corn exchanged for a great deal of money, because it was dear, and that money, too, exchanged for a great deal of corn, because that also was dear; which is to assert that corn is dear and cheap at the same time. No point in political economy can be better established, than that a rich country is prevented from increasing in population, in the same ratio as a poor country, by the progressive difficulty of providing food. That difficulty must necessarily raise the relative price of food, and give encouragement to its importation. How then can money, or gold and silver, exchange for more corn in rich, than in poor, countries? It is only in rich countries, where corn is dear, that landholders induce the legislature to prohibit the importation of corn. Who ever heard of a law to prevent the importation of raw produce in America or Poland?—Nature has effectually precluded its importation by the comparative facility of its production in those countries.

How, then, can it be true, that "if you except corn, and such other vegetables, as are raised altogether by human industry, all other sorts of rude produce—cattle, poultry, game of all kinds, the useful fossils and minerals of the earth, &c., naturally grow dearer as the society advances" Why should corn and vegetables alone

be excepted? Dr Smith's error, throughout his whole work, lies in supposing that the value of corn is constant; that though the value of all other things may, the value of corn never can, be raised. Corn, according to him, is always of the same value, because it will always feed the same number of people. In the same manner, it might be said that cloth is always of the same value, because it will always make the same number of coats. What can value have to do with the power of feeding and clothing?

Corn, like every other commodity, has in every country its natural price, viz. that price which is necessary to its production, and without which it could not be cultivated: it is this price which governs its market price, and which determines the expediency of exporting it to foreign countries. If the importation of corn were prohibited in England, its natural price might rise to 6*l.* per quarter in England, whilst it was only at half that price in France. If at this time, the prohibition of importation were removed, corn would fall in the English market, not to a price between 6*l.* and 3*l.*, but ultimately and permanently to the natural price of France, the price at which it could be furnished to the English market, and afford the usual and ordinary profits of stock in France; and it would remain at this price, whether England consumed a hundred thousand, or a million of quarters. If the demand of England were for the latter quantity, it is probable that, owing to the necessity under which France would be, of having recourse to land of a worse quality, to furnish this large supply, the natural price would rise in France; and this would of course affect also the price of corn in England. All that I contend for is, that it is the natural price of commodities in the exporting country, which ultimately regulates the prices at which they shall be sold, if they are not the objects of monopoly in the importing country.

But Dr Smith, who has so ably supported the doctrine of the natural price of commodities ultimately regulating their market price, has supposed a case in which he thinks that the market price would not be regulated either by the natural price of the exporting or of the importing country. "Diminish the real opulence either of Holland or the territory of Genoa," he says, "while the number of their inhabitants remains the same; diminish their power of supplying themselves from distant countries, and the price of corn, instead of sinking with that diminution in the quantity of their silver which must necessarily accompany this declension, either as its cause or as its effect, will rise to the price of a famine."

To me it appears that the very reverse would take place: the diminished power of the Dutch or Genoese to purchase generally, might depress the price of corn for a time below its natural price in the country from which it was exported, as well as in the countries in which it was imported; but it is quite impossible that it could ever raise it above that price. It is only by increasing the opulence of the Dutch or Genoese, that you could increase the demand, and

raise the price of corn above its former price; and that would take place only for a very limited time, unless new difficulties should arise in obtaining the supply.

Dr Smith further observes on this subject: "When we are in want of necessaries, we must part with all superfluities, of which the value, as it rises in times of opulence and prosperity, so it sinks in times of poverty and distress." This is undoubtedly true; but he continues, "it is otherwise with necessaries. Their real price, the quantity of labour which they can purchase or command, rises in times of poverty and distress, and sinks in times of opulence and prosperity, which are always times of great abundance, for they could not otherwise be times of opulence and prosperity. Corn is a necessary, silver is only a superfluity."

Two propositions are here advanced, which have no connexion with each other; one, that under the circumstances supposed, corn would command more labour, which is not disputed; the other, that corn would sell at a higher money price, that it would exchange for more silver; this I contend to be erroneous. It might be true, if corn were at the same time scarce—if the usual supply had not been furnished. But in this case it is abundant; it is not pretended that a less quantity than usual is imported, or that more is required. To purchase corn, the Dutch or Genoese want money, and to obtain this money, they are obliged to sell their superfluities. It is the market value and price of these superfluities which falls, and money appears to rise as compared with them. But this will not tend to increase the demand for corn, nor to lower the value of money, the only two causes which can raise the price of corn. Money, from a want of credit, and from other causes, may be in great demand, and consequently dear, comparatively with corn; but on no just principle can it be maintained, that under such circumstances money would be cheap, and therefore, that the price of corn would rise.

When we speak of the high or low value of gold, silver, or any other commodity in different countries, we should always mention some medium in which we are estimating them, or no idea can be attached to the proposition. Thus, when gold is said to be dearer in England than in Spain, if no commodity is mentioned, what notion does the assertion convey? If corn, olives, oil, wine, and wool, be at a cheaper price in Spain than in England; estimated in those commodities, gold is dearer in Spain. If, again, hardware, sugar, cloth, &c., be at a lower price in England than in Spain, then, estimated in those commodities, gold is dearer in England. Thus gold appears dearer or cheaper in Spain, as the fancy of the observer may fix on the medium by which he estimates its value. Adam Smith, having stamped corn and labour as a universal measure of value, would naturally estimate the comparative value of gold by the quantity of those two objects for which it would exchange: and, accordingly, when he speaks of the comparative

value of gold in two countries, I understand him to mean its value estimated in corn and labour.

But we have seen that, estimated in corn, gold may be of very different value in two countries. I have endeavoured to show that it will be low in rich countries and high in poor countries; Adam Smith is of a different opinion: he thinks that the value of gold, estimated in corn, is highest in rich countries. But without further examining which of these opinions is correct, either of them is sufficient to show that gold will not neecssarily be lower in those countries which are in possession of the mines, though this is a proposition maintained by Adam Smith. Suppose England to be possessed of the mines, and Adam Smith's opinion, that gold is of the greatest value in rich countries, to be correct: although gold would naturally flow from England to all other countries in exchange for their *goods*, it would not follow that gold was necessarily lower in England, as compared with corn and labour, than in those countries. In another place, however, Adam Smith speaks of the precious metals being necessarily lower in Spain and Portugal than in other parts of Europe, because those countries happen to be almost the exclusive possessors of the mines which produce them. "Poland, where the feudal system still continues to take place, is at this day as beggarly a country as it was before the discovery of America. *The money price of corn, however, has risen;* THE REAL VALUE OF THE PRECIOUS METALS HAS FALLEN in Poland in the same manner as in other parts of Europe. Their quantity, therefore, must have increased there as in other places, *and nearly in the same proportion to the annual produce of the land and labour.* This increase of the quantity of those metals, however, has not, it seems, increased that annual produce; has neither improved the manufactures and agriculture of the country, nor mended the circumstances of its inhabitants. Spain and Portugal, the countries which possess the mines, are, after Poland, perhaps the two most beggarly countries in Europe. The value of the precious metals, however, *must be lower in Spain and Portugal* than in any other parts of Europe, loaded not only with a freight and insurance, but with the expense of smuggling, their exportation being either prohibited or subjected to a duty. *In proportion to the annual produce of the land and labour, therefore, their quantity must be greater in* those countries than in any other part of Europe: those countries, however, are poorer than the greater part of Europe. Though the feudal system has been abolished in Spain and Portugal, it has not been succeeded by a much better."

Dr Smith's argument appears to me to be this: Gold, when estimated in corn, is cheaper in Spain than in other countries, and the proof of this is not that corn is given by other countries to Spain for gold, but that cloth, sugar, hardware, are by those countries given in exchange for that metal.

## CHAPTER XXIX.

### TAXES PAID BY THE PRODUCER.

Mons. Say greatly magnifies the inconveniences which result if a tax on a manufactured commodity is levied at an early, rather than at a late, period of its manufacture. The manufacturers, he observes, through whose hands the commodity may successively pass, must employ greater funds in consequence of having to advance the tax, which is often attended with considerable difficulty to a manufacturer of very limited capital and credit. To this observation no objection can be made.

Another inconvenience on which he dwells is, that in consequence of the advance of the tax, the profits on the advance also must be charged to the consumer, and that this additional tax is one from which the treasury derives no advantage.

In this latter objection I cannot agree with M. Say. The State, we will suppose, wants to raise *immediately* 1000*l.*, and levies it on a manufacturer, who will not for a twelvemonth be able to charge it to the consumer on his finished commodity. In consequence of such delay, he is obliged to charge for his commodity an additional price, not only of 1000*l.*, the amount of the tax, but probably of 1,100*l.*, 100*l.* being for interest on the 1000*l.* advanced. But in return for this additional 100*l.* paid by the consumer, he has a real benefit, inasmuch as his payment of the tax which Government required immediately, and which he must finally pay, has been postponed for a year; an opportunity, therefore, has been afforded to him of lending to the manufacturer who had occasion for it the 1000*l.*, at 10 per cent., or at any other rate of interest which might be agreed upon. Eleven hundred pounds, payable at the end of one year, when money is at 10 per cent. interest, is of no more value than 1000*l.* to be paid immediately. If Government delayed receiving the tax for one year, till the manufacture of the commodity was completed, it would perhaps be obliged to issue an Exchequer bill bearing interest, and it would pay as much for interest as the consumer would save in price, excepting, indeed, that portion of the price which the manufacturer might be enabled, in consequence of the tax, to add to his own real gains. If for the interest of the Exchequer bill Government would pay 5 per cent., a tax of 50*l.* is saved by not issuing it. If the manufacturer borrowed the addi-

tional capital at 5 per cent., and charged the consumer 10 per cent., he also will have gained 5 per cent. on his advance, over and above his usual profits, so that the manufacturer and Government together gain or save precisely the sum which the consumer pays.

M. Simonde, in his excellent work, *De la Richesse Commerciale*, following the same line of argument as M. Say, has calculated that a tax of 4000 francs, paid originally by a manufacturer, whose profits were at the moderate rate of 10 per cent., would, if the commodity manufactured only passed through the hands of five different persons, be raised to the consumer to the sum of 6,734 francs. This calculation proceeds on the supposition, that he who first advanced the tax, would receive from the next manufacturer 4,400 francs, and he again from the next, 4,840 francs: so that at each step 10 per cent. on its value would be added to it. This is to suppose that the value of the tax would be accumulating at compound interest; not at the rate of 10 per cent. per annum, but at an absolute rate of 10 per cent. at every step of its progress. This opinion of M. de Simonde would be correct, if five years elapsed between the first advance of the tax, and the sale of the taxed commodity to the consumer; but if one year only elapsed, a remuneration of 400 francs, instead of 2,734, would give a profit at the rate of 10 per cent. per annum, to all who had contributed to the advance of the tax, whether the commodity had passed through the hands of five manufacturers or fifty.

## CHAPTER XXX.

### ON THE INFLUENCE OF DEMAND AND SUPPLY ON PRICES.

It is the cost of production which must ultimately regulate the price of commodities, and not, as has been often said, the proportion between the supply and demand: the proportion between supply and demand may, indeed, for a time, affect the market value of a commodity, until it is supplied in greater or less abundance, according as the demand may have increased or diminished; but this effect will be only of temporary duration.

Diminish the cost of production of hats, and their price will ultimately fall to their new natural price, although the demand should be doubled, trebled, or quadrupled. Diminish the cost of subsistence of men, by diminishing the natural price of the food and clothing, by which life is sustained, and wages will ultimately fall, notwithstanding that the demand for labourers may very greatly increase.

The opinion that the price of commodities depends solely on the proportion of supply to demand, or demand to supply, has become almost an axiom in political economy, and has been the source of much error in that science. It is this opinion which has made Mr Buchanan maintain that wages are not influenced by a rise or fall in the price of provisions, but solely by the demand and supply of labour; and that a tax on the wages of labour would not raise wages, because it would not alter the proportion of the demand of labourers to the supply.

The demand for a commodity cannot be said to increase, if no additional quantity of it be purchased or consumed; and yet, under such circumstances, its money value may rise. Thus, if the value of money were to fall, the price of every commodity would rise, for each of the competitors would be willing to spend more money than before on its purchase; but though its price rose 10 or 20 per cent., if no more were bought than before, it would not, I apprehend, be admissible to say, that the variation in the price of the commodity was caused by the increased demand for it. Its natural price, its money cost of production, would be really altered by the altered value of money; and without any increase of demand, the price of the commodity would be naturally adjusted to that new value

"We have seen," says M. Say, "that the cost of production determines the lowest price to which things can fall: the price below which they cannot remain for any length of time, because production would then be either entirely stopped or diminished." Vol. ii. p. 26.

He afterwards says, that the demand for gold having increased in a still greater proportion than the supply, since the discovery of the mines, "its price in goods, instead of falling in the proportion of ten to one, fell only in the proportion of four to one;" that is to say, instead of falling in proportion as its natural price had fallen, fell in proportion as the supply exceeded the demand.*—"*The value of every commodity rises always in a direct ratio to the demand, and in an inverse ratio to the supply.*"

The same opinion is expressed by the Earl of Lauderdale.

"With respect to the variations in value, of which every thing valuable is susceptible, if we could for a moment suppose that any substance possessed intrinsic and fixed value, so as to render an assumed quantity of it constantly, under all circumstances, of an equal value, then the degree of value of all things, ascertained by such a fixed standard, would vary according to the proportion *betwixt the quantity of them* and the demand for them, and every commodity would, of course, be subject to a variation in its value, from four different circumstances:

1. "It would be subject to an increase of its value, from a diminution of its quantity.

2. "To a diminution of its value, from an augmentation of its quantity.

3. "It might suffer an augmentation in its value, from the circumstance of an increased demand.

4. "Its value might be diminished by a failure of demand.

"As it will, however, clearly appear that no commodity can possess fixed and intrinsic value, so as to qualify it for a measure of the value of other commodities, mankind are induced to select, as a practical measure of value, that which appears the least liable to any of these four sources of variations, *which are the sole causes of alteration of value.*

"When, in common language, therefore, we express the *value* of any commodity, it may vary at one period from what it is at another, in consequence of eight different contingencies:—

1. "From the four circumstances above stated, in relation to the commodity of which we mean to express the value.

* If, with the quantity of gold and silver which actually exists, these metals only served for the manufacture of utensils and ornaments, they would be abundant, and would be much cheaper than they are at present: in other words, in exchanging them for any other species of goods, we should be obliged to give proportionally a greater quantity of them. But as a large quantity of these metals is used for money, and as this portion is used for no other purpose, there remains less to be employed in furniture and jewellery; now this scarcity adds to their value.—*Say*, vol. ii. p. 316. See also note to p. 78.

2. "From the same four circumstances, in relation to the commodity we have adopted as a measure of value."*

This is true of monopolized commodities, and, indeed, of the market price of all other commodities for a limited period. If the demand for hats should be doubled, the price would immediately rise, but that rise would be only temporary, unless the cost of production of hats or their natural price were raised. If the natural price of bread should fall 50 per cent. from some great discovery in the science of agriculture, the demand would not greatly increase, for no man would desire more than would satisfy his wants, and as the demand would not increase, neither would the supply; for a commodity is not supplied merely because it can be produced, but because there is a demand for it. Here, then, we have a case where the supply and demand have scarcely varied, or, if they have increased, they have increased in the same proportion; and yet the price of bread will have fallen 50 per cent., at a time, too, when the value of money had continued invariable.

Commodities which are monopolized, either by an individual or by a company, vary according to the law which Lord Lauderdale has laid down: they fall in proportion as the sellers augment their quantity, and rise in proportion to the eagerness of the buyers to purchase them; their price has no necessary connexion with their natural value: but the prices of commodities which are subject to competition, and whose quantity may be increased in any moderate degree, will ultimately depend, not on the state of demand and supply, but on the increased or diminished cost of their production

* An Inquiry into the Nature and Origin of Public Wealth, p. 13.

## CHAPTER XXXI.

### ON MACHINERY.

In the present chapter I shall enter into some inquiry respecting the influence of machinery on the interests of the different classes of society, a subject of great importance, and one which appears never to have been investigated in a manner to lead to any certain or satisfactory results. It is more incumbent on me to declare my opinion on this question, because they have, on further reflection, undergone a considerable change; and although I am not aware that I have ever published anything respecting machinery which it is necessary for me to retract, yet I have in other ways given my support to doctrines which I now think erroneous; it therefore becomes a duty in me to submit my present views to examination, with my reasons for entertaining them.

Ever since I first turned my attention to questions of political economy, I have been of opinion that such an application of machinery to any branch of production as should have the effect of saving labour, was a general good, accompanied only with that portion of inconvenience which in most cases attends the removal of capital and labour from one employment to another. It appeared to me, that, provided the landlords had the same money rents, they would be benefited by the reduction in the prices of some of the commodities on which those rents were expended, and which reduction of price could not fail to be the consequence of the employment of machinery. The capitalist, I thought, was eventually benefited precisely in the same manner. He, indeed, who made the discovery of the machine, or who first usefully applied it, would enjoy an additional advantage by making great profits for a time; but, in proportion as the machine came into general use, the price of the commodity produced would, from the effects of competition, sink to its cost of production, when the capitalist would get the same money profits as before, and he would only participate in the general advantage, as a consumer, by being enabled, with the same money revenue, to command an additional quantity of comforts and enjoyments. The class of labourers also, I thought, was equally benefited by the use of machinery, as they would have the means of buying more commodities with the same money wages, and I thought that no reduction of wages would take place, because the capitalist would have the power of demanding and employing the same quantity of

as before, although he might be under the necessity of employing it in the production of a new, or, at any rate, of a different commodity. If, by improved machinery, with the employment of the same quantity of labour, the quantity of stockings could be quadrupled, and the demand for stockings were only doubled, some labourers would necessarily be discharged from the stocking trade; but as the capital which employed them was still in being, and as it was the interest of those who had it to employ it productively, it appeared to me that it would be employed on the production of some other commodity useful to the society, for which there could not fail to be a demand; for I was, and am, deeply impressed with the truth of the observation of Adam Smith, that "the desire for food is limited in every man by the narrow capacity of the human stomach, but the desire of the conveniences and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary." As, then, it appeared to me that there would be the same demand for labour as before, and that wages would be no lower, I thought that the labouring class would, equally with the other classes, participate in the advantage, from the general cheapness of commodities arising from the use of machinery.

These were my opinions, and they continue unaltered, as far as regards the landlord and the capitalist; but I am convinced that the substitution of machinery for human labour is often very injurious to the interests of the class of labourers.

My mistake arose from the supposition, that whenever the net income of a society increased, its gross income would also increase; I now, however, see reason to be satisfied that the one fund, from which landlords and capitalists derive their revenue, may increase, while the other, that upon which the labouring class mainly depend, may diminish, and therefore it follows, if I am right, that the same cause which may increase the net revenue of the country may at the same time render the population redundant, and deteriorate the condition of the labourer.

A capitalist, we will suppose, employs a capital of the value of 20,000*l.*, and that he carries on the joint business of a farmer and a manufacturer of necessaries. We will further suppose, that 7000*l.* of this capital is invested in fixed capital, viz. in buildings, implements, &c. &c., and that the remaining 13,000*l.* is employed as circulating capital in the support of labour. Let us suppose, too, that profits are 10 per cent., and consequently that the capitalist's capital is every year put into its original state of efficiency, and yields a profit of 2000*l.*

Each year the capitalist begins his operations by having food and necessaries in his possession of the value of 13,000*l.*, all of which he sells in the course of the year to his own workmen for that sum of money, and, during the same period, he pays them the like amount of money for wages: at the end of the year they replace in

his possession food and necessaries of the value of 15,000*l.*, 2000*l.* of which he consumes himself, or disposes of as may best suit his pleasure and gratification. As far as these products are concerned, the gross produce for that year is 15,000*l.*, and the net produce 2000*l.* Suppose, now, that the following year the capitalist employs half his men in constructing a machine, and the other half in producing food and necessaries as usual. During that year he would pay the sum of 13,000*l.* in wages as usual, and would sell food and necessaries to the same amount to his workmen; but what would be the case the following year?

While the machine was being made, only one-half of the usual quantity of food and necessaries would be obtained, and they would be only one-half the value of the quantity which was produced before. The machine would be worth 7,500*l.*, and the food and necessaries 7,500*l.*, and, therefore, the capital of the capitalist would be as great as before; for he would have, besides these two values, his fixed capital worth 7000*l.*, making in the whole 20,000*l.* capital, and 2000*l.* profit. After deducting this latter sum for his own expenses, he would have a no greater circulating capital than 5,500*l.* with which to carry on his subsequent operations; and, therefore, his means of employing labour would be reduced in the proportion of 13,000*l.* to 5,500*l.*, and, consequently, all the labour which was before employed by 7,500*l.* would become redundant.

The reduced quantity of labour which the capitalist can employ, must, indeed, with the assistance of the machine, and after deductions for its repairs, produce a value equal to 7,500*l.*, it must replace the circulating capital with a profit of 2000*l.* on the whole capital; but if this be done, if the net income be not diminished, of what importance is it to the capitalist, whether the gross income be of the value of 3000*l.*, of 10,000*l.*, or of 15,000*l.*?

In this case, then, although the net produce will not be diminished in value, although its power of purchasing commodities may be greatly increased, the gross produce will have fallen from a value of 15,000*l.* to a value of 7,500*l.*; and as the power of supporting a population, and employing labour, depends always on the gross produce of a nation, and not on its net produce, there will necessarily be a diminution in the demand for labour, population will become redundant, and the situation of the labouring classes will be that of distress and poverty.

As, however, the power of saving from revenue to add to capital, must depend on the efficiency of the net revenue, to satisfy the wants of the capitalist, it could not fail to follow from the reduction in the price of commodities consequent on the introduction of machinery, that with the same wants he would have increased means of saving—increased facility of transferring revenue into capital. But with every increase of capital he would employ more labourers; and, therefore, a portion of the people thrown out of work in the first instance, would be subsequently employed; and

if the increased production, in consequence of the employment of the machine, was so great as to afford, in the shape of net produce, as great a quantity of food and necessaries as existed before in the form of gross produce, there would be the same ability to employ the whole population, and, therefore, there would not necessarily be any redundancy of people.

All I wish to prove is, that the discovery and use of machinery may be attended with a diminution of gross produce; and whenever that is the case, it will be injurious to the labouring class, as some of their number will be thrown out of employment, and population will become redundant, compared with the funds which are to employ it.

The case which I have supposed is the most simple that I could select; but it would make no difference in the result, if we supposed that the machinery was applied to the trade of any manufacturer,—that of a clothier, for example, or of a cotton manufacturer. If, in the trade of a clothier, less cloth would be produced after the introduction of machinery; for a part of that quantity which is disposed of for the purpose of paying a large body of workmen, would not be required by their employer. In consequence of using the machine, it would be necessary for him to reproduce a value, only equal to the value consumed, together with the profits on the whole capital. 7,500*l.* might do this as effectually as 15,000*l.* did before, the case differing in no respect from the former instance. It may be said, however, that the demand for cloth would be as great as before, and it may be asked from whence would this supply come? But by whom would the cloth be demanded? By the farmers and the other producers of necessaries, who employed their capitals in producing these necessaries as a means of obtaining cloth: they gave corn and necessaries to the clothier for cloth, and he bestowed them on his workmen for the cloth which their work afforded him.

This trade would now cease; the clothier would not want the food and clothing, having fewer men to employ and having less cloth to dispose of. The farmers and others, who only produced necessaries as means to an end, could no longer obtain cloth by such an application of their capitals, and, therefore, they would either themselves employ their capitals in producing cloth, or would lend them to others, in order that the commodity really wanted might be furnished; and that for which no one had the means of paying, or for which there was no demand, might cease to be produced. This, then, leads us to the same result; the demand for labour would diminish, and the commodities necessary to the support of labour would not be produced in the same abundance.

If these views be correct, it follows, 1st, That the discovery, and useful application of machinery, always leads to the increase of the net produce of the country, although it may not, and will not, after an inconsiderable interval, increase the value of that net produce.

2dly, That an increase of the net produce of a country is com-

patible with a diminution of the gross produce, and that the motives for employing machinery are always sufficient to ensure its employment, if it will increase the net produce, although it may, and frequently must, diminish both the quantity of the gross produce, and its value.

3dly, That the opinion entertained by the labouring class, that the employment of machinery is frequently detrimental to their interests, is not founded on prejudice and error, but is conformable to the correct principles of political economy.

4thly, That if the improved means of production, in consequence of the use of machinery, should increase the net produce of a country in a degree so great as not to diminish the gross produce, (I mean always quantity of commodities, and not value), then the situation of all classes will be improved. The landlord and capitalist will benefit, not by an increase of rent and profit, but by the advantages resulting from the expenditure of the same rent, and profit on commodities, very considerably reduced in value, while the situation of the labouring classes will also be considerably improved: 1st, from the increased demand for menial servants; 2dly, from the stimulus to savings from revenue, which such an abundant net produce will afford; and, 3dly, from the low price of all articles of consumption on which their wages will be expended.

---

Independently of the consideration of the discovery and use of machinery, to which our attention has been just directed, the labouring class have no small interest in the manner in which the net income of the country is expended, although it should, in all cases, be expended for the gratification and enjoyments of those who are fairly entitled to it.

If a landlord, or a capitalist, expends his revenue in the manner of an ancient baron, in the support of a great number of retainers, or menial servants, he will give employment to much more labour, than if he expended it on fine clothes, or costly furniture; on carriages, on horses, or in the purchase of any other luxuries.

In both cases the net revenue would be the same, and so would be the gross revenue, but the former would be realised in different commodities. If my revenue were 10,000*l.*, the same quantity nearly of productive labour would be employed, whether I realised it in fine clothes and costly furniture, &c., &c., or in a quantity of food and clothing of the same value. If, however, I realised my revenue in the first set of commodities, no more labour would be *consequently* employed:—I should enjoy my furniture and my clothes, and there would be an end of them; but if I realised my revenue in food and clothing, and my desire was to employ menial servants, all those whom I could so employ with my revenue of 10,000*l.*, or with the food and clothing which it would purchase, would be to be added to the former demand for labourers, and this addition would take place only because I chose this mode of expending my revenue.

As the labourers, then, are interested in the demand for labour, they must naturally desire that as much of the revenue as possible should be diverted from expenditure on luxuries, to be expended in the support of menial servants.

In the same manner, a country engaged in war, and which is under the necessity of maintaining large fleets and armies, employs a great many more men than will be employed when the war terminates, and the annual expenses which it brings with it, cease. If I were not called upon for a tax of 500*l.* during the war, and which is expended on men in the situations of soldiers and sailors, I might probably expend that portion of my income on furniture, clothes, books, &c., &c., and whether it was expended in the one way or in the other, there would be the same quantity of labour employed in production; for the food and clothing of the soldier and sailor would require the same amount of industry to produce it as the more luxurious commodities; but in the case of the war, there would be the additional demand for men as soldiers and sailors; and, consequently, a war which is supported out of the revenue, and not from the capital of a country, is favourable to the increase of population.

At the termination of the war, when part of my revenue reverts to me, and is employed as before in the purchase of wine, furniture, or other luxuries, the population which it before supported, and which the war called into existence, will become redundant, and by its effect on the rest of the population, and its competition with it for employment, will sink the value of wages, and very materially deteriorate the condition of the labouring classes.

There is one other case that should be noticed of the possibility of an increase in the amount of the net revenue of a country, and even of its gross revenue, with a diminution of demand for labour, and that is, when the labour of horses is substituted for that of man. If I employed one hundred men on my farm, and if I found that the food bestowed on fifty of those men, could be diverted to the support of horses, and afford me a greater return of raw produce, after allowing for the interest of the capital which the purchase of the horses would absorb, it would be advantageous to me to substitute the horses for the men, and I should accordingly do so; but this would not be for the interest of the men, and unless the income I obtained was so much increased as to enable me to employ the men as well as the horses, it is evident that the population would become redundant, and the labourer's condition would sink in the general scale. It is evident he could not, under any circumstances, be employed in agriculture; but if the produce of the land were increased by the substitution of horses for men, he might be employed in manufactures, or as a menial servant.

The statements which I have made will not, I hope, lead to the inference that machinery should not be encouraged. To elucidate the principle, I have been supposing, that improved machinery is

*suddenly* discovered, and extensively used; but the truth is, that these discoveries are gradual, and rather operate in determining the employment of the capital which is saved and accumulated, than in diverting capital from its actual employment.

With every increase of capital and population, food will generally rise, on account of its being more difficult to produce. The consequence of a rise of food will be a rise of wages, and every rise of wages will have a tendency to determine the saved capital in a greater proportion than before to the employment of machinery. Machinery and labour are in constant competition, and the former can frequently not be employed until labour rises.

In America and many other countries, where the food of man is easily provided, there is not nearly such great temptation to employ machinery as in England, where food is high, and costs much labour for its production. The same cause that raises labour does not raise the value of machines, and, therefore, with every augmentation of capital, a greater proportion of it is employed on machinery. The demand for labour will continue to increase with an increase of capital, but not in proportion to its increase; the ratio will necessarily be a diminishing ratio.*

I have before observed, too, that the increase of net incomes, estimated in commodities, which is always the consequence of improved machinery, will lead to new savings and accumulations. These savings, it must be remembered, are annual, and must soon create a fund much greater than the gross revenue originally lost by the discovery of the machine, when the demand for labour will be as great as before, and the situation of the people will be still further improved by the increased savings which the increased net revenue will still enable them to make.

The employment of machinery could never be safely discouraged in a State, for if a capital is not allowed to get the greatest net revenue that the use of machinery will afford here, it will be carried

* "The demand for labour depends on the increasing of circulating, and not of fixed capital. Were it true that the proportion between these two sorts of capital is the same at all times, and in all countries, then, indeed, it follows that the number of labourers employed is in proportion to the wealth of the State. But such a position has not the semblance of probability. As arts are cultivated, and civilization is extended, fixed capital bears a larger and larger proportion to circulating capital. The amount of fixed capital employed in the production of a piece of British muslin is at least a hundred, probably a thousand times greater than that employed in the production of a similar piece of Indian muslin. And the proportion of circulating capital employed is a hundred or a thousand times less. It is easy to conceive that, under certain circumstances, the whole of the annual savings of an industrious people might be added to fixed capital, in which case they would have no effect in increasing the demand for labour."—Barton, "On the Condition of the Labouring Classes of Society," page 16.

It is not easy, I think, to conceive that, under any circumstances, an increase of capital should not be followed by an increased demand for labour; the most that can be said is, that the demand will be in a diminishing ratio. Mr Barton, in the above publication, has, I think, taken a correct view of some of the effects of an increasing amount of fixed capital on the condition of the labouring classes. His Essay contains much valuable information.

abroad, and this must be a much more serious discouragement to the demand for labour than the most extensive employment of machinery; for while a capital is employed in this country it must create a demand for some labour; machinery cannot be worked without the assistance of men, it cannot be made but with the contribution of their labour. By investing part of a capital in improved machinery, there will be a diminution in the progressive demand for labour; by exporting it to another country, the demand will be wholly annihilated.

The prices of commodities, too, are regulated by their cost of production. By employing improved machinery, the cost of production of commodities is reduced, and, consequently, you can afford to sell them in foreign markets at a cheaper price. If, however, you were to reject the use of machinery, while all other countries encouraged it, you would be obliged to export your money, in exchange for foreign goods, till you sunk the natural prices of your goods to the prices of other countries. In making your exchanges with those countries, you might give a commodity which cost two days' labour here for a commodity which cost one abroad, and this disadvantageous exchange would be the consequence of your own act, for the commodity which you export, and which cost you two days' labour, would have cost you only one if you had not rejected the use of machinery, the services of which your neighbours had more wisely appropriated to themselves.

## CHAPTER XXXII.

### MR MALTHUS'S OPINIONS ON RENT.

Although the nature of rent has in the former pages of this work been treated on at some length, yet I consider myself bound to notice some opinions on the subject which appear to me erroneous, and which are the more important as they are found in the writings of one to whom, of all men of the present day, some branches of economical science are the most indebted. Of Mr Malthus's Essay on Population, I am happy in the opportunity here afforded me of expressing my admiration. The assaults of the opponents of this great work have only served to prove its strength; and I am persuaded that its just reputation will spread with the cultivation of that science of which it is so eminent an ornament. Mr Malthus, too, has satisfactorily explained the principles of rent, and showed that it rises or falls in proportion to the relative advantages, either of fertility or situation, of the different lands in cultivation, and has thereby thrown much light on many difficult points connected with the subject of rent, which were before either unknown, or very imperfectly understood; yet he appears to me to have fallen into some errors, which his authority makes it the more necessary, whilst his characteristic candour renders it less unpleasing, to notice. One of these errors lies in supposing rent to be a clear gain, and a new creation of riches.

I do not assent to all the opinions of Mr Buchanan concerning rent; but with those expressed in the following passage, quoted from his work by Mr Malthus, I fully agree, and therefore I must dissent from Mr Malthus's comment on them.

"In this view it (rent) can form no general addition to the stock of the community, as the neat surplus in question is nothing more than a revenue transferred from one class to another; and from the mere circumstance of its thus changing hands, it is clear that no fund can arise out of which to pay taxes. The revenue which pays for the produce of the land exists already in the hands of those who purchase that produce; and if the price of subsistence were lower, it would still remain in their hands, where it would be just as available for taxation as when, by a higher price, it is transferred to the landed proprietor."

After various observations on the difference between raw produce

and manufactured commodities, Mr Malthus asks, "Is it possible, then, with M. de Sismondi, to regard rent as the sole produce of labour, which has a value purely nominal, and the mere result of that augmentation of price which a seller obtains in consequence of a peculiar privilege; or, with Mr Buchanan, to consider it as no addition to the national wealth, but merely a transfer of value, advantageous only to the landlords, and proportionably *injurious* to the consumers?"*

I have already expressed my opinion on this subject in treating of rent, and have now only further to add, that rent is a creation of value, as I understand that word, but not a creation of wealth. If the price of corn, from the difficulty of producing any portion of it, should rise from 4*l.* to 5*l.* per quarter, a million of quarters will be of the value of 5,000,000*l.* instead of 4,000,000*l.*, and as this corn will exchange not only for more money, but for more of every other commodity, the possessors will have a greater amount of value; and as no one else will, in consequence, have a less, the society altogether will be possessed of greater value, and, in that sense, rent is a creation of value. But this value is so far nominal that it adds nothing to the wealth, that is to say, the necessaries, conveniences, and enjoyments of the society. We should have precisely the same quantity, and no more of commodities, and the same million quarters of corn as before; but the effect of its being rated at 5*l.* per quarter instead of 4*l.*, would be to transfer a portion of the value of the corn and commodities from their former possessors to the landlords. Rent, then, is a creation of value, but not a creation of wealth; it adds nothing to the resources of a country; it does not enable it to maintain fleets and armies; for the country would have a greater disposable fund if its land were of a better quality, and it could employ the same capital without generating a rent.

It must then be admitted that Mr Sismondi and Mr Buchanan, for both their opinions are substantially the same, were correct when they considered rent as a value purely nominal, and as forming no addition to the national wealth, but merely as a transfer of value, advantageous only to the landlords, and proportionably injurious to the consumer.

In another part of Mr Malthus's "Inquiry" he observes, "that the immediate cause of rent is obviously the excess of price above the cost of production at which raw produce sells in the market;" and, in another place, he says, "that the causes of the high price of raw produce may be stated to be three:—

"First, and mainly, that quality of the earth, by which it can be made to yield a greater portion of the necessaries of life than is required for the maintenance of the persons employed on the land.

"2dly. That quality peculiar to the necessaries of life, of being

* An Inquiry into the Nature and Progress of Rent, p. 15.

able to create their own demand, or to raise up a number of demanders in proportion to the quantity of necessaries produced.

"And 3dly. The comparative scarcity of the most fertile land." In speaking of the high price of corn, Mr Malthus evidently does not mean the price per quarter or per bushel, but rather the excess of price for which the whole produce will sell, above the cost of its production, including always in the term "cost of its production," profits as well as wages. One hundred and fifty quarters of corn at 3*l.* 10s. per quarter, would yield a larger rent to the landlord than 100 quarters at 4*l.*, provided the cost of production were in both cases the same.

High price, if the expression be used in this sense, cannot then be called a *cause* of rent; it cannot be said "that the immediate cause of rent is obviously the excess of price above the cost of production, at which raw produce sells in the market," for that excess is itself rent. Rent, Mr Malthus has defined to be "that portion of the value of the whole produce which remains to the owner of the land, after all the outgoings belonging to its cultivation, of whatever kind, have been paid, including the profits of the capital employed, estimated according to the usual and ordinary rate of the profits of agricultural stock at the time being." Now, whatever sum this excess may sell for, is money rent; it is what Mr Malthus means by "the excess of price above the cost of production at which raw produce sells in the market;" and, therefore, in an inquiry into the causes which may elevate the price of raw produce, compared with the cost of production, we are inquiring into the causes which may elevate rent.

In reference to the first cause which Mr Malthus has assigned for the rise of rent, namely, "that quality of the earth by which it can be made to yield a greater portion of the necessaries of life than is required for the maintenance of the persons employed on the land," he makes the following observations: "We still want to know why the consumption and supply are such as to make the price so greatly exceed the cost of production, and the main cause is evidently the *fertility* of the earth in producing the necessaries of life. Diminish this plenty, diminish the fertility of the soil, and the excess will diminish; diminish it still further, and it will disappear." True, the excess of necessaries will diminish and disappear, but that is not the question. The question is, whether the excess of their price above the cost of their production will diminish and disappear, for it is on this that money rent depends. Is Mr Malthus warranted in his inference, that because the excess of quantity will diminish and disappear, therefore "the cause of the *high price* of the necessaries of life above the cost of production is to be found in their abundance, rather than in their scarcity; and is not only essentially different from the high price occasioned by artificial monopolies, but from the high price of those peculiar products of the earth, not

connected with food, which may be called natural and necessary monopolies?"

Are there no circumstances under which the fertility of the land, and the plenty of its produce may be diminished, without occasioning a diminished excess of its price above the cost of production, that is to say, a diminished rent? If there are, Mr Malthus's proposition is much too universal; for he appears to me to state it as a general principle, true under all circumstances, that rent will rise with the increased fertility of the land, and will fall with its diminished fertility.

Mr Malthus would undoubtedly be right, if, of any given farm, in proportion as the land yielded abundantly, a greater share of the whole produce were paid to the landlord; but the contrary is the fact: when no other but the most fertile land is in cultivation, the landlord has the smallest proportion of the whole produce, as well as the smallest value, and it is only when inferior lands are required to feed an augmenting population, that both the landlord's share of the whole produce, and the value he receives, progressively increase.

Suppose that the demand is for a million of quarters of corn, and that they are the produce of the land actually in cultivation. Now, suppose the fertility of all the land to be so diminished, that the very same lands will yield only 900,000 quarters. The demand being for a million of quarters, the price of corn would rise, and recourse must necessarily be had to land of an inferior quality sooner than if the superior land had continued to produce a million of quarters. But it is this necessity of taking inferior land into cultivation which is the cause of the rise of rent, and will elevate it, although the quantity of corn received by the landlord, be reduced in quantity. Rent, it must be remembered, is not in proportion to the absolute fertility of the land in cultivation, but in proportion to its relative fertility. Whatever cause may drive capital to inferior land, must elevate rent on the superior land; the cause of rent being, as stated by Mr Malthus in his third proposition, "the comparative scarcity of the most fertile land." The price of corn will naturally rise with the difficulty of producing the last portions of it, and the value of the whole quantity produced on a particular farm will be increased, although its quantity be diminished; but as the cost of production will not increase on the more fertile land, as wages and profits taken together will continue always of the same value,* it is evident that the excess of price above the cost of production, or, in other words, rent, must rise with the diminished fertility of the land, unless it is counteracted by a great reduction of capital, population, and demand. It does not appear, then, that Mr Malthus's proposition is correct: rent does not imme-

* See page 66, where I have endeavoured to show, that whatever facility or difficulty there may be in the production of corn, wages and profits together will be of the same value. When wages rise, it is always at the expense of profits, and when they fall, profits always rise.

diately and necessarily rise or fall with the increased or diminished fertility of the land; but its increased fertility renders it capable of paying at some future time an augmented rent. Land possessed of very little fertility can never bear any rent; land of moderate fertility may be made, as population increases, to bear a moderate rent; and land of great fertility a high rent; but it is one thing to be able to bear a high rent, and another thing actually to pay it. Rent may be lower in a country where lands are exceedingly fertile than in a country where they yield a moderate return, it being in proportion rather to relative than absolute fertility—to the value of the produce, and not to its abundance.*

Mr Malthus supposes that the rent on land yielding those peculiar products of the earth which may be called natural and necessary monopolies, is regulated by a principle essentially different from that which regulates the rent of land that yields the necessaries of life. He thinks that it is the scarcity of the products of the first which is the cause of a high rent, but that it is the abundance of the latter, which produces the same effect.

This distinction does not appear to me to be well founded; for you would as surely raise the rent of land yielding scarce wines, as the rent of corn land, by increasing the abundance of its produce, if, at the same time, the demand for this peculiar commodity increased; and without a similar increase of demand, an abundant supply of corn would lower instead of raise the rent of corn land. Whatever the nature of the land may be, high rent must depend on the high price of the produce; but, given the high price, rent must be high in proportion to abundance and not to scarcity.

We are under no necessity of producing permanently any greater quantity of a commodity than that which is demanded. If by accident any greater quantity were produced, it would fall below its natural price, and therefore would not pay the cost of production, including in that cost the usual and ordinary profits of stock: thus the supply would be checked till it conformed to the demand, and the market price rose to the natural price.

Mr Malthus appears to me to be too much inclined to think that population is only increased by the previous provision of food,—"that it is food that creates its own demand,"—that it is by first providing food, that encouragement is given to marriage, instead of considering that the general progress of population is affected by the increase of capital, the consequent demand for labour, and the

* Mr Malthus has observed in a late publication, that I have misunderstood him in this passage, as he did not mean to say, that rent immediately and necessarily rises and falls with the increased or diminished fertility of the land. If so, I certainly did misunderstand him. Mr Malthus's words are, "Diminish this plenty, diminish the fertility of the soil, and the excess (rent) will diminish; diminish it still further, and it will disappear." Mr Malthus does not state his proposition conditionally, but absolutely. I contended against what I understood him to maintain, that a diminution of the fertility of the soil was incompatible with an increase of rent.

rise of wages; and that the production of food is but the effect of that demand.

It is by giving the workmen more money, or any other commodity in which wages are paid, and which has not fallen in value, that his situation is improved. The increase of population, and the increase of food will generally be the effect, but not the necessary effect of high wages. The amended condition of the labourer, in consequence of the increased value which is paid him, does not necessarily oblige him to marry and take upon himself the charge of a family—he will, in all probability, employ a portion of his increased wages in furnishing himself abundantly with food and necessaries,—but with the remainder he may, if it please him, purchase any commodities that may contribute to his enjoyments—chairs, tables, and hardware; or better clothes, sugar, and tobacco. His increased wages, then, will be attended with no other effect than an increased demand for some of those commodities; and as the race of labourers will not be materially increased, his wages will continue permanently high. But although this might be the consequence of high wages, yet so great are the delights of domestic society, that, in practice, it is invariably found that an increase of population follows the amended condition of the labourer; and it is only because it does so, that, with the trifling exception already mentioned, a new and increased demand arises for food. This demand, then, is the effect of an increase of capital and population, but not the cause—it is only because the expenditure of the people takes this direction, that the market price of necessaries exceeds the natural price, and that the quantity of food required is produced; and it is because the number of people is increased, that wages again fall.

What motive can a farmer have to produce more corn than is actually demanded, when the consequence would be a depression of its market price below its natural price, and consequently a privation to him of a portion of his profits, by reducing them below the general rate? "If," says Mr Malthus, "the necessaries of life, the most important produets of land, had not the property of creating an increase of demand proportioned to their increased quantity, such increased quantity would occasion a fall in their exchangeable value.* However abundant might be the produce of the country, its population might remain stationary; and this abundance without a proportionate demand, and with a very high corn price of labour, which would naturally take place under these circumstances, might reduce the price of raw produce, like the price of manufactures, to the cost of production."

Might reduce the price of raw produce to the cost of production. Is it ever for any length of time either above or below this price?

* Of what increased quantity does Mr Malthus speak? Who is to produce it? Who can have any motive to produce it before any demand exists for an additional quantity?

Does not Mr Malthus himself state it never to be so? "I hope," he says, "to be excused for dwelling a little, and presenting to the reader, in various forms, the doctrine that corn, in reference to the quantity *actually produced*, is sold at its necessary price like manufactures, because I consider it as a truth of the highest importance, which has been overlooked by the economists, by Adam Smith, and all those writers, who have represented raw produce as selling always at a monopoly price."

"Every extensive country may thus be considered as possessing a gradation of machines for the production of corn and raw materials, including in this gradation not only all the various qualities of poor land, of which every territory has generally an abundance, but the inferior machinery, which may be said to be employed when good land is further and further forced for additional produce. As the price of raw produce continues to rise, these inferior machines are successively called into action; and as the price of raw produce continues to fall, they are successively thrown out of action. The illustration here used serves to show at once the *necessity of the actual price of corn to the actual produce*, and the different effect which would attend a great reduction in the price of any particular manufacture, and a great reduction in the price of raw produce."*

How are these passages to be reconciled to that which affirms, that if the necessaries of life had not the property of creating an increase of demand proportioned to their increased quantity, the abundant quantity produced would then, and then only, reduce the price of raw produce to the cost of production? If corn is never under its natural price, it is never more abundant than the actual population require it to be for their own consumption; no store can be laid up for the consumption of others; it can never, then, by its cheapness and abundance be a stimulus to population. In proportion as corn can be produced cheaply, the increased wages of the labourers will have more power to maintain families. In America population increases rapidly because food can be produced at a cheap price, and not because an abundant supply has been previously provided. In Europe population increases comparatively slowly, because food cannot be produced at a cheap value. In the

* Inquiry, &c. "In all progressive countries, the average price of corn is never higher than what is necessary to continue the average increase of produce."—*Observations*, p. 21.

"In the employment of fresh capital upon the land, to provide for the wants of an increasing population, whether this fresh capital is employed in bringing more land under the plough, or improving land already in cultivation, the main question always depends upon the expected returns of this capital; and no part of the gross profits can be diminished without diminishing the motive to this mode of employing it. Every diminution of price not fully and immediately balanced by a proportionate fall in all the necessary expenses of a farm, every tax on the land, every tax on farming stock, every tax on the necessaries of farmers, will tell in the computation; and if, after all these outgoings are allowed for, the price of the produce will not leave a fair remuneration for the capital employed, according to the general rate of profits, and a rent at least equal to the rent of the land in its former state, no sufficient motive can exist to undertake the projected improvement."—*Observations*, p. 22.

usual and ordinary course of things, the demand for all commodities precedes their supply. By saying that corn would, like manufactures, sink to its price of production, if it could not raise up demanders, Mr Malthus cannot mean that all rent would be absorbed; for he has himself justly remarked, that if all rent were given up by the landlords, corn would not fall in price; rent being the effect, and not the cause of high price, and there being always one quality of land in cultivation which pays no rent whatever, the corn from which replaces by its price only wages and profits.

In the following passage, Mr Malthus has given an able exposition of the causes of the rise in the price of raw produce in rich and progressive countries, in every word of which I concur; but it appears to me to be at variance with some of the propositions maintained by him in his Essay on Rent. "I have no hesitation in stating that, independently of the irregularities in the currency of a country, and other temporary and accidental circumstances, the cause of the high comparative money price of corn is its high comparative *real price*, or the greater quantity of capital and labour which must be employed to produce it; and that the reasons why the real price of corn is higher, and continually rising in countries which are already rich, and still advancing in prosperity and population, is to be found in the necessity of resorting constantly to poorer land, to machines which require a greater expenditure to work them, and which consequently occasion each fresh addition to the raw produce of the country to be purchased at a greater cost; in short, it is to be found in the important truth, that corn in a progressive country is sold at a price necessary to yield the actual supply; and that, as this supply becomes more and more difficult, the price rises in proportion."

The real price of a commodity is here properly stated to depend on the greater or less quantity of labour and capital (that is, accumulated labour) which must be employed to produce it. Real price does not, as some have contended, depend on money value; nor, as others have said, on value relatively to corn, labour, or any other commodity taken singly, or to all commodities collectively; but, as Mr Malthus justly says, "on the greater (or less) quantity of capital and labour which must be employed to produce it."

Among the causes of the rise of rent, Mr Malthus mentions, "such an increase of population as will lower the wages of labour." But if, as the wages of labour fall, the profits of stock rise, and they be together always of the same value,* no fall of wages can raise rent, for it will neither diminish the portion, nor the value of the portion of the produce which will be allotted to the farmer and labourer together; and, therefore, will not leave a larger portion, nor a larger value for the landlord. In proportion as less is appropriated for wages, more will be appropriated for profits, and *vice*

* See p. 67.

*versâ*. This division will be settled by the farmer and his labourers, without any interference of the landlord; and, indeed, it is a matter in which he can have no interest, otherwise than as one division may be more favourable than another, to new accumulations, and to a further demand for land. If wages fell, profits, and not rent, would rise. If wages rose, profits, and not rent, would fall. The rise of rent and wages, and the fall of profits, are generally the inevitable effects of the same cause—the increasing demand for food, the increased quantity of labour required to produce it, and its consequently high price. If the landlord were to forego his whole rent, the labourers would not be in the least benefited. If it were possible for the labourers to give up their whole wages, the landlords would derive no advantage from such a circumstance; but in both cases the farmers would receive and retain all which they relinquish. It has been my endeavour to show in this work, that a fall of wages would have no other effect than to raise profits. Every rise of profits is favourable to the accumulation of capital, and to the further increase of population, and therefore would, in all probability, ultimately lead to an increase of rent.

Another cause of the rise of rent, according to Mr Malthus, is "such agricultural improvements or such increase of exertions, as will diminish the number of labourers necessary to produce a given effect." To this passage I have the same objection that I had against that which speaks of the increased fertility of land being the cause of an immediate rise of rent. Both the improvement in agriculture, and the superior fertility, will give to the land a capability of bearing at some future period a higher rent, because with the same price of food there will be a great additional quantity; but till the increase of population be in the same proportion, the additional quantity of food would not be required, and, therefore, rents would be lowered and not raised. The quantity that could under the then existing circumstances be consumed, could be furnished either with fewer hands, or with a less quantity of land, the price of raw produce would fall, and capital would be withdrawn from the land.* Nothing can raise rent, but a demand for new land of an inferior quality, or some cause which shall occasion an alteration in the relative fertility of the land already under cultivation.† Improvements in agriculture, and in the division of labour,

* See p. 43, &c.

† It is not necessary to state, on every occasion, but it must be always understood, that the same results will follow, as far as regards the price of raw produce and the rise of rents, whether an additional capital of a given amount, be employed on new land, for which no rent is paid, or on land already in cultivation, if the produce obtained from both be precisely the same in quantity.—See p. 37.

M. Say, in his notes to the French translation of this work, has endeavoured to show that there is not at any time land in cultivation which does not pay a rent, and having satisfied himself on this point, he concludes that he has overturned all the conclusions which result from that doctrine. He infers, for example, that I am not correct in saying that taxes on corn, and other raw produce, by elevating their price, fall on the consumer, and do not fall on rent. He contends that such taxes must fall

are common to all land; they increase the absolute quantity of raw produce obtained from each, but probably do not much disturb the relative proportions which before existed between them.

Mr Malthus has justly commented on the error of Dr Smith's argument, that corn is of so peculiar a nature, that its production cannot be encouraged by the same means that the production of all other commodities is encouraged. He observes, "It is by no means intended to deny the powerful influence of the price of corn upon the price of labour, on an average of a considerable number of years; but that this influence is not such as to prevent the movement of capital to, or from the land, which is the precise point in question, will be made sufficiently evident, by a short inquiry into the manner in which labour is paid, and brought into the market, and by a consideration of the consequences to which the assumption of Adam Smith's proposition would inevitably lead."*

Mr Malthus then proceeds to show, that demand and high price will as effectually encourage the production of raw produce as the demand and high price of any other commodity will encourage its production. In this view it will be seen, from what I have said of the effects of bounties, that I entirely concur. I have noticed the passage from Mr Malthus's "Observations on the Corn Laws," for the purpose of showing in what a different sense the term real price is used here, and in his other pamphlet, entitled "Grounds of an Opinion," &c. In this passage Mr Malthus tells us, that "it is clearly an increase of real price alone which can encourage the production of corn," and, by real price, he evidently means the increase in its value relatively to all other things, or, in other words, the rise in its market above its natural price, or the cost of its production. If by real price this is what is meant, although I do not admit the propriety of thus naming it, Mr Malthus's opinion is undoubtedly correct; it is the rise in the market price of corn which alone encourages its production; for it may be laid down as a principle uniformly true, that the only great encouragement to the increased production of a commodity is its market value exceeding its natural or necessary value.

But this is not the meaning which Mr Malthus, on other occasions, attaches to the term real price. In the Essay on Rent, Mr Malthus says, by "the real growing price of corn I mean the real *quantity* of labour and capital *which has been employed* to produce the last additions which have been made to the national produce." In another part he states "the cause of the high comparative real price of corn to be the greater *quantity* of capital and labour which

on rent. But before M. Say can establish the correctness of this inference, he must also show that there is not any capital employed on the land for which no rent is paid (see the beginning of this note, and pages 34 and 38 of the present work); now this he has not attempted to do. In no part of his notes has he refuted, or even noticed that important doctrine. By his note to page 182 of the second volume of the French edition, he does not appear to be aware that it has even been advanced.

* Observations on the Corn Laws, p. 4.

must be *employed* to produce it."* Suppose that, in the foregoing passage, we were to substitute this definition of real price, would it not then run thus?—"It is clearly the increase in the quantity of labour and capital which must be employed to produce corn, which alone can encourage its production." This would be to say, that it is clearly the rise in the natural or necessary price of corn which encourages its production—a proposition which could not be maintained. It is not the price at which corn can be produced that has any influence on the quantity produced, but the price at which it can be sold. It is in proportion to the degree of the difference of its price above or below the cost of production that capital is attracted to or repelled from the land. If that excess be such as to give to capital so employed a greater than the general profit of stock, capital will go to the land; if less, it will be withdrawn from it.

It is not, then, by an alteration in the real price of corn that its production is encouraged, but by an alteration in its market price. It is not "because a greater quantity of capital and labour must be employed to produce it (Mr Malthus's just definition of real price), that more capital and labour are attracted to the land, but because the market price rises above this, its real price, and, notwithstanding the increased charge, makes the cultivation of land the more profitable employment of capital."

Nothing can be more just than the following observations of Mr Malthus, on Adam Smith's standard of value. "Adam Smith was evidently led into this train of argument from his habit of considering *labour as the standard measure of value*, and corn as the measure of labour. But that corn is a very inaccurate measure of labour, the history of our own country will amply demonstrate; where labour, compared with corn, will be found to have experienced very great and striking variations, not only from year to year, but from century to century, and for ten, twenty, and thirty years together. *And that neither labour nor any other commodity can be an accurate measure of real value in exchange*, is now considered as one of the most incontrovertible doctrines of political economy, and, indeed, follows from the very definition of value in exchange."

If neither corn nor labour are accurate measures of real value in exchange, which they clearly are not, what other commodity is?—certainly none. If, then, the expression, real price of commodities, have any meaning, it must be that which Mr Malthus has stated in the Essay on Rent—it must be measured by the proportionate quantity of capital and labour necessary to produce them.

In Mr Malthus's "Inquiry into the Nature of Rent," he says,

* Upon showing this passage to Mr Malthus, at the time when these papers were going to the press, he observed, "that in these two instances he had inadvertently used the term *real price*, instead of *cost of production*. It will be seen, from what I have already said, that to me it appears that in these two instances he has used the term *real price* in its true and just acceptation, and that in the former case only it is incorrectly applied.

"that, independently of irregularities in the currency of a country, and other temporary and accidental circumstances, the cause of the high comparative money price of corn is its high comparative real price, *or the greater quantity of capital and labour which must be employed to produce it.*"*

This, I apprehend, is the correct account of all permanent variations in price, whether of corn or of any other commodity. A commodity can only permanently rise in price, either because a greater quantity of capital and labour must be employed to produce it, or because money has fallen in value; and, on the contrary, it can only fall in price, either because a less quantity of capital and labour may be employed to produce it, or because money has risen in value.

A variation arising from the latter of these alternatives, an altered value of money, is common at once to all commodities; but a variation arising from the former cause, is confined to the particular commodity requiring more or less labour in its production. By allowing the free importation of corn, or by improvements in agriculture, raw produce would fall; but the price of no other commodity would be affected, except in proportion to the fall in the real value, or cost of production, of the raw produce, which entered into its composition.

Mr Malthus, having acknowledged this principle, cannot, I think, consistently maintain that the whole money value of all the commodities in the country must sink exactly in proportion to the fall in the price of corn. If the corn consumed in the country were of the value of 10 millions per annum, and the manufactured and foreign commodities consumed were of the value of 20 millions, making altogether 30 millions, it would not be admissible to infer that the annual expenditure was reduced to 15 millions, because corn had fallen 50 per cent., or from 10 to 5 millions.

The value of the raw produce which entered into the composition of these manufactures might not, for example, exceed 20 per cent. of their whole value, and, therefore, the fall in the value of manufactured commodities, instead of being from 20 to 10 millions, would be only from 20 to 18 millions; and after the fall in the price of corn of 50 per cent., the whole amount of the annual expenditure, instead of falling from 30 to 15 millions, would fall from 30 to 23 millions.†

This, I say, would be their value, if you supposed it possible, that with such a cheap price of corn, no more corn and commodities would be consumed; but as all those who had employed capital in

* Page 40.

† Manufactures, indeed, could not fall in any such proportion, because, under the circumstances supposed, there would be a new distribution of the precious metals among the different countries. Our cheap commodities would be exported in exchange for corn and gold, till the accumulation of gold should lower its value, and raise the money price of commodities.

the production of corn on those lands which would no longer be cultivated, could employ it in the production of manufactured goods; and only a part of those manufactured goods would be given in exchange for foreign corn, as on any other supposition no advantage would be gained by importation and low prices; we should have the additional value of all that quantity of manufactured goods which were so produced, and not exported to add to the above value, so that the real diminution, even in money value, of all the commodities in the country, corn included, would be equal only to the loss of the landlords, by the reduction of their rents, while the quantity of objects of enjoyment would be greatly increased.

Instead of thus considering the effect of a fall in the value of raw produce, as Mr Malthus was bound to do by his previous admission, he considers it as precisely the same thing as a rise of 100 per cent. in the value of money, and, therefore, argues as if all commodities would sink to half their former price.

"During the twenty years beginning with 1794," he says, "and ending with 1813, the average price of British corn per quarter was about 83 shillings; during the ten years ending with 1813, 92 shillings; and during the last five years of the twenty, 108 shillings. In the course of these twenty years, the Government borrowed near 500 millions of real capital; for which, on a rough average, exclusive of the sinking fund, it engaged to pay about 5 per cent. But if corn should fall to 50 shillings a quarter, and other commodities in proportion, instead of an interest of about 5 per cent., the Government would really pay an interest of 7, 8, 9, and, for the last 200 millions, 10 per cent.

"To this extraordinary generosity towards the stockholders I should be disposed to make no kind of objection, if it were not necessary to consider by whom it is to be paid; and a moment's reflection will show us that it can only be paid by the industrious classes of society and the landlords, that is, by all those whose nominal income will vary with the variations in the measure of value. The nominal revenues of this part of the society, compared with the average of the last five years, will be diminished one half, and out of this nominally reduced income, they will have to pay the same nominal amount of taxes."*

In the first place, I think I have already shown, that even the value of the gross income of the whole country will not be diminished in the proportion for which Mr Malthus here contends; it would not follow, that because corn fell 50 per cent., each man's gross income would be reduced 50 per cent. in value;† his net income might be actually increased in value.

* The Grounds of an Opinion, &c., p. 36.

† Mr Malthus, in another part of the same work, supposes commodities to vary 25 or 20 per cent. when corn varies 33⅓.

In the second place, I think the reader will agree with me that the increased charge, if admitted, would not fall exclusively "on the landlords and the industrious classes of society;" the stockholder, by his expenditure, contributes his share to the support of the public burdens in the same way as the other classes of society. If, then, money became really more valuable, although he would receive a greater value, he would also pay a greater value in taxes, and, therefore, it cannot be true that the whole addition to the real value of the interest would be paid by "the landlords and the industrious classes."

The whole argument, however, of Mr Malthus, is built on an infirm basis: it supposes, because the gross income of the country is diminished, that, therefore, the net income must also be diminished in the same proportion. It has been one of the objects of this work to show, that, with every fall in the real value of necessaries, the wages of labour would fall, and that the profits of stock would rise; in other words, that of any given annual value a less portion would be paid to the labouring class, and a larger portion to those whose funds employed this class. Suppose the value of the commodities produced in a particular manufacture to be 1000*l.*, and to be divided between the master and his labourers in the proportion of 800*l.* to labourers, and 200*l.* to the master; if the value of these commodities should fall to 900*l.*, and 100*l.* be saved from the wages of labour, in consequence of the fall of necessaries, the net income of the master would be in no degree impaired, and, therefore, he could with just as much facility pay the same amount of taxes after as before the reduction of price.*

It is of importance to distinguish clearly between gross revenue and net revenue, for it is from the net revenue of a society that all taxes must be paid. Suppose that all the commodities in the country, all the corn, raw produce, manufactured goods, &c., which could be brought to market in the course of the year, were of the value of 20 millions, and that in order to obtain this value, the labour of a certain number of men was necessary, and that the absolute necessaries of these labourers required an expenditure of 10 millions: I should say that the gross revenue of such society was 20 millions, and its net revenue 10 millions. It does not follow from this supposition that the labourers should receive only 10 millions for their labour; they might receive 12, 14, or 15 millions, and in that case they would have 2, 4, or 5 millions of the net income. The rest would be divided between landlords and

* Of net produce and gross produce, M. Say speaks as follows:—"The whole value produced is the gross produce; this value, after deducting from it the cost of production, is the net produce."—Vol. ii. p. 491. There can, then, be no net produce, because the cost of production, according to M. Say, consists of rent, wages, and profits. In page 508, he says, "the value of a product, the value of a productive service, the value of the cost of production, are all, then, similar values, whenever things are left to their natural course." Take a whole from a whole and nothing remains.

capitalists; but the whole net income would not exceed 10 millions. Suppose such a society paid 2 millions in taxes, its net income would be reduced to 8 millions.

Suppose now money to become more valuable by one-tenth, all commodities would fall, and the price of labour would fall, because the absolute necessaries of the labourer formed a part of those commodities, consequently the gross income would be reduced to 18 millions, and the net income to 9 millions. If the taxes fell in the same proportion, and, instead of 2 millions, 1,800,000*l.* only were raised, the net income would be further reduced to 7,200,000*l.*, precisely of the same value as the 8 millions were before, and therefore the society would neither be losers nor gainers by such an event. But suppose that after the rise of money, 2 millions were raised for taxes as before, the society would be poorer by 200,000*l.* per annum, their taxes would be really raised one-ninth. To alter the money value of commodities, by altering the value of money, and yet to raise the same money amount by taxes, is then undoubtedly to increase the burthens of society.

But suppose of the 10 millions net revenue, the landlords received five millions as rent, and that by facility of production, or by the importation of corn, the necessary cost of that article in labour was reduced 1 million, rent would fall 1 million, and the prices of the mass of commodities would also fall to the same amount, but the net revenue would be just as great as before; the gross income would, it is true, be only 19 millions, and the necessary expenditure to obtain it 9 millions, but the net income would be 10 millions. Now, suppose 2 millions raised in taxes on this diminished gross income, would the society altogether be richer or poorer? Richer, certainly; for after the payment of their taxes, they would have, as before, a clear income of 8 millions to bestow on the purchase of commodities, which had increased in quantity, and fallen in price, in the proportion of 20 to 19; not only then could the same taxation be endured, but greater, and yet the m. of the people be better provided with conveniences and necessaries.

If the net income of the society, after paying the same money taxation, be as great as before, and the class of landholders lose 1 million from a fall of rent, the other productive classes must have increased money incomes, notwithstanding the fall of prices. The capitalist will then be doubly benefited; the corn and butcher's meat consumed by himself and his family will be reduced in price and the wages of his menial servants, of his gardeners, and labourers of all descriptions, will be also lowered. His horses and cattle will cost less, and be supported at a less expense. All the commodities in which raw produce enters as a principal part of their value, will fall. This aggregate amount of savings, made on the expenditure of income, at the same time that his money income is increased, will then be doubly beneficial to him, and will enable him not only to add to his enjoyments, but to bear additional taxes, if they should

be required: his additional consumption of taxed commodities will much more than make up for the diminished demand of landlords, consequent on the reduction of their rents. The same observations apply to farmers and traders of every description.

But it may be said, that the capitalist's income will not be increased; that the million deducted from the landlord's rent, will be paid in additional wages to labourers! Be it so; this will make no difference in the argument: the situation of the society will be improved, and they will be able to bear the same money burthens with greater facility than before; it will only prove what is still more desirable, that the situation of another class, and by far the most important class in society, is the one which is chiefly benefited by the new distribution. All that they receive more than 9 millions, forms part of the net income of the country, and it cannot be expended without adding to its revenue, its happiness, or its power. Distribute, then, the net income as you please. Give a little more to one class, and a little less to another, yet you do not thereby diminish it; a greater amount of commodities will be still produced with the same labour, although the amount of the gross money value of such commodities will be diminished; but the net money income of the country, that fund from which taxes are paid and enjoyments procured, would be much more adequate, than before, to maintain the actual population, to afford it enjoyments and luxuries, and to support any given amount of taxation.

That the stockholder is benefited by a great fall in the value of corn, cannot be doubted; but if no one else be injured, that is no reason why corn should be made dear; for the gains of the stockholder are national gains, and increase, as all other gains do, the real wealth and power of the country. If they are unjustly benefited, let the degree in which they are so be accurately ascertained, and then it is for the Legislature to devise a remedy; but no policy can be more unwise than to shut ourselves out from the great advantages arising from cheap corn, and abundant productions, merely because the stockholder would have an undue proportion of the increase.

To regulate the dividends on stock by the money value of corn, has never yet been attempted. If justice and good faith required such a regulation, a great debt is due to the old stockholders; for they have been receiving the same money dividends for more than a century, although corn has, perhaps, been doubled or trebled in price.

But it is a great mistake to suppose, that the situation of the stockholder will be more improved than that of the farmer, the manufacturer, and the other capitalists of the country; it will, in fact, be less improved.

The stockholder will undoubtedly receive the same money dividend, while not only the price of raw produce and labour fell, but the prices of many other things into which raw produce entered

as a component part. This, however, is an advantage, as I have just stated, which he would enjoy in common with all other persons who had the same money incomes to expend:—his money income would not be increased; that of the farmer, manufacturer, and other employers of labour would, and consequently they would be doubly benefited.

It may be said, that although it may be true that capitalists would be benefited by a rise of profits, in consequence of a fall of wages, yet that their incomes would be diminished by the fall in the money value of their commodities. What is to lower them? Not any alteration in the value of money, for nothing has been supposed to occur to alter the value of money. Not any diminution in the quantity of labour necessary to produce their commodities, for no such cause has operated, and if it did operate, would not lower money profits, though it might lower money prices. But the raw produce of which commodities are made, is supposed to have fallen in price, and, therefore, commodities will fall on that account. True, they will fall, but their fall will not be attended with any diminution in the money income of the producer. If he sell his commodity for less money, it is only because one of the materials from which it is made has fallen in value. If the clothier sell his cloth for 900*l.* instead of 1000*l.*, his income will not be less, if the wool from which it is made has declined 100*l.* in value.

Mr Malthus says, "It is true, that the last additions to the agricultural produce of an improving country, are not attended with a large proportion of rent; and it is precisely this circumstance that may make it answer to a rich country to import some of its corn, if it can be secure of obtaining an equable supply. But in all cases the importation of foreign corn must fail to answer nationally, if it is not so much cheaper than the corn that can be grown at home, as to equal both the profits and the rent of the grain which it displaces."—*Grounds, &c.* p. 36.

In this observation Mr Malthus is quite correct; but imported corn *must* be always so much cheaper than the corn that can be grown at home, "as to equal both the profits and the rent of the grain which it displaces." If it were not, no advantage to any one could be obtained by importing it.

As rent is the effect of the high price of corn, the loss of rent is the effect of a low price. Foreign corn never enters into competition with such home corn as affords a rent; the fall of price invariably affects the landlord till the whole of his rent is absorbed; —if it fall still more, the price will not afford even the common profits of stock; capital will then quit the land for some other employment, and the corn which was before grown upon it will then, and not till then, be imported. From the loss of rent, there will be a loss of value, of estimated money value, but there will be a gain of wealth. The amount of the raw produce and other productions together will be increased; from the greater facility with

which they are produced, they will, though augmented in quantity, be diminished in value.

Two men employ equal capitals—one in agriculture, the other in manufactures. That in agriculture produces a net annual value of 1,200*l.*, of which 1000*l.* is retained for profit, and 200*l.* is paid for rent; the other in manufactures produces only an annual value of 1000*l.* Suppose that, by importation, the same quantity of corn which cost 1,200*l.* can be obtained for commodities which cost 950*l.*, and that, in consequence, the capital employed in agriculture is diverted to manufactures, where it can produce a value of 1000*l.*, the net revenue of the country will be of less value, it will be reduced from 2,200*l.* to 2000*l.*; but there will not only be the same quantity of commodities and corn for its own consumption, but also as much addition to that quantity as 50*l.* would purchase, the difference between the value at which its manufactures were sold to the foreign country, and the value of the corn which was purchased from it.

Now this is precisely the question respecting the advantage of importing or growing corn; it never can be imported till the quantity obtained from abroad by the employment of a given capital exceeds the quantity which the same capital will enable us to grow at home,—exceeds not only that quantity which falls to the share of the farmer, but also that which is paid as rent to the landlord.

Mr Malthus says, "It has been justly observed by Adam Smith, that no equal quantity of productive labour employed in manufactures can ever occasion so great a reproduction as in agriculture." If Adam Smith speaks of value, he is correct; but if he speaks of riches, which is the important point, he is mistaken: for he has himself defined riches to consist of the necessaries, conveniences, and enjoyments of human life. One set of necessaries and conveniences admits of no comparison with another set; value in use cannot be measured by any known standard; it is differently estimated by different persons.

# THE HIGH PRICE

OF

# BULLION

A PROOF OF THE

# DEPRECIATION OF BANK NOTES.

THE FOURTH EDITION.

---

WITH AN APPENDIX.

---

LONDON.

1811.

# HIGH PRICE OF BULLION.

THE precious metals employed for circulating the commodities of the world, previously to the establishment of banks, have been supposed by the most approved writers on political economy to have been divided into certain proportions among the different civilized nations of the earth, according to the state of their commerce and wealth, and therefore according to the number and frequency of the payments which they had to perform. While so divided they preserved every where the same value, and as each country had an equal necessity for the quantity actually in use, there could be no temptation offered to either for their importation or exportation.

Gold and silver, like other commodities, have an intrinsic value, which is not arbitrary, but is dependent on their scarcity, the quantity of labour bestowed in procuring them, and the value of the capital employed in the mines which produce them.

"The quality of utility, beauty, and scarcity," says Dr Smith, "are the original foundation of the high price of those metals, or of the great quantity of other goods for which they can every where be exchanged. This value was antecedent to, and independent of, their being employed as coin, and was the quality which fitted them for that employment."

If the quantity of gold and silver in the world employed as money were exceedingly small, or abundantly great, it would not in the least affect the proportions in which they would be divided among the different nations—the variation in their quantity would have produced no other effect than to make the commodities for which they were exchanged comparatively dear or cheap. The smaller quantity of money would perform the functions of a circulating medium, as well as the larger. Ten millions would be as effectual for that purpose as 100 millions. Dr Smith observes, "that the most abundant mines of the precious metals would add little to the wealth of the world. A produce of which the value is principally derived from its scarcity is necessarily degraded by its abundance."

If in the progress towards wealth, one nation advanced more rapidly than the others, that nation would require and obtain a

greater proportion of the money of the world. Its commerce, its commodities, and its payments, would increase, and the general currency of the world would be divided according to the new proportions. All countries, therefore, would contribute their share to this effectual demand.

In the same manner, if any nation wasted part of its wealth, or lost part of its trade, it could not retain the same quantity of circulating medium which it before possessed. A part would be exported, and divided among the other nations till the usual proportions were re-established.

While the relative situation of countries continued unaltered, they might have abundant commerce with each other, but their exports and imports would on the whole be equal. England might possibly import more goods from, than she would export to, France, but she would in consequence export more to some other country, and France would import more from that country; so that the exports and imports of all countries would balance each other; bills of exchange would make the necessary payments, but no money would pass because it would have the same value in all countries.

If a mine of gold were discovered in either of these countries, the currency of that country would be lowered in value in consequence of the increased quantity of the precious metals brought into circulation, and would therefore no longer be of the same value as that of other countries. Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation; they would leave the country where they were cheap, for those countries where they were dear, and would continue to do so, as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine, were again established, and gold and silver restored every where to one value. In return for the gold exported, commodities would be imported; and though what is usually termed the balance of trade would be against the country exporting money or bullion, it would be evident that she was carrying on a most advantageous trade, exporting that which was no way useful to her, for commodities which might be employed in the extension of her manufactures, and the increase of her wealth.

If instead of a mine being discovered in any country, a bank were established, such as the Bank of England, with the power of issuing its notes for a circulating medium; after a large amount had been issued, either by way of loan to merchants, or by advances to Government, thereby adding considerably to the sum of the currency, the same effect would follow as in the case of the mine. The circulating medium would be lowered in value, and goods would experience a proportionate rise. The equilibrium between that and other nations would only be restored by the exportation of part of the coin.

The establishment of the bank, and the consequent issue of its

notes, therefore, as well as the discovery of the mine, operate as an inducement to the exportation either of bullion, or of coin, and are beneficial only in as far as that object may be accomplished. The bank substitutes a currency of no value for one most costly, and enables us to turn the precious metals (which, though a very necessary part of our capital, yield no revenue), into a capital which will yield one. Dr A. Smith compares the advantages attending the establishment of a bank to those which would be obtained by converting our highways into pastures and corn fields, and procuring a road through the air. The highways, like the coin, are highly useful, but neither yield any revenue. Some people might be alarmed at the specie leaving the country, and might consider that as a disadvantageous trade which required us to part with it; indeed the law so considers it by its enactments against the exportation of specie; but a very little reflection will convince us that it is our choice, and not our necessity, that sends it abroad; and that it is highly beneficial to us to exchange that commodity which is superfluous, for others which may be made productive.

The exportation of the specie may at all times be safely left to the discretion of individuals; it will not be exported more than any other commodity, unless its exportation should be advantageous to the country. If it be advantageous to export it, no laws can effectually prevent its exportation. Happily, in this case, as well as in most others in commerce, where there is free competition, the interests of the individual and that of the community are never at variance.

Were it possible to carry the law against melting, or exporting of coin, into strict execution, at the same time that the exportation of gold bullion was freely allowed, no advantage could accrue from it, but great injury must arise to those who might have to pay, possibly, two ounces or more of coined gold for one of uncoined gold. This would be a real depreciation of our currency, raising the prices of all other commodities in the same proportion as it increased that of gold bullion. The owner of money would in this case suffer an injury equal to what a proprietor of corn would suffer, were a law to be passed prohibiting him from selling his corn for more than half its market value. The law against the exportation of the coin has this tendency, but is so easily evaded, that gold in bullion has always been nearly of the same value as gold in coin.

Thus, then, it appears that the currency of one country can never for any length of time be much more valuable, as far as equal quantities of the precious metals are concerned, than that of another; that excess of currency is but a relative term; that if the circulation of England were 10 millions, that of France 5 millions, that of Holland 4 millions, &c., &c., whilst they kept their proportions, though the currency of each country were doubled or trebled, neither country would be conscious of an excess of currency. The prices of commodities would every where rise, on account of the increase

of currency, but there would be no exportation of money from either. But if these proportions be destroyed by England alone doubling her currency, while that of France, Holland, &c., &c., continued as before, we should then be conscious of an excess in our currency, and for the same reason the other countries would feel a deficiency in theirs, and part of our excess would be exported till the proportions of ten, five, four, &c., were again established.

If in France an ounce of gold were more valuable than in England, and would therefore in France purchase more of any commodity common to both countries, gold would immediately quit England for such purpose, and we should send gold in preference to any thing else, because it would be the cheapest exchangeable commodity in the English market; for if gold be dearer in France than in England, goods must be cheaper; we should not therefore send them from the dear to the cheap market, but, on the contrary, they would come from the cheap to the dear market, and would be exchanged for our gold.

The Bank might continue to issue their notes, and the specie be exported with advantage to the country, while their notes were payable in specie on demand, because they could never issue more notes than the value of the coin which would have circulated had there been no bank.*

If they attempted to exceed this amount, the excess would be immediately returned to them for specie; because our currency, being thereby diminished in value, could be advantageously exported, and could not be retained in our circulation. These are the means, as I have already explained, by which our currency endeavours to equalize itself with the currencies of other countries. As soon as this equality was attained, all advantage arising from exportation would cease; but if the Bank, assuming that because a given quantity of circulating medium had been necessary last year, therefore the same quantity must be necessary this, or for any other reason, continued to re-issue the returned notes, the stimulus which a redundant currency first gave to the exportation of the coin would be again renewed with similar effects; gold would be again demanded, the exchange would become unfavourable, and gold bullion would rise, in a small degree, above its Mint price, because it is legal to export bullion, but illegal to export the coin, and the difference would be about equal to the fair compensation for the risk.

In this manner, if the Bank persisted in returning their notes into circulation, every guinea might be drawn out of their coffers.

If, to supply the deficiency of their stock of gold, they were to purchase gold bullion at the advanced price, and have it coined into guineas, this would not remedy the evil; guineas would be still demanded, but, instead of being exported, would be melted, and sold to

* They might, strictly speaking, rather exceed that quantity, because as the Bank would add to the currency of the world, England would retain its share of the increase.

the Bank as bullion at the advanced price. "The operations of the Bank," observed Dr Smith, alluding to an analogous case, "were, upon this account, somewhat like the web of Penelope,—the work that was done in the day was undone in the night." The same sentiment is expressed by Mr Thornton:—"Finding the guineas in their coffers to lessen every day, they must naturally be supposed to be desirous of replacing them by all effectual and not extravagantly expensive means. They will be disposed, to a certain degree, to buy gold, though at a losing price, and to coin it into new guineas; but they will have to do this at the very moment when many are privately melting what is coined. The one party will be melting and selling while the other is buying and coining. And each of these two contending businesses will now be carried on, not on account of an actual exportation of each melted guinea to Hamburgh, but the operation, or at least a great part of it, will be confined to London, the coiners and the melters living on the same spot, and giving constant employment to each other.

"The Bank," continues Mr Thornton, "if we suppose it, as we now do, to carry on this sort of contest with the melters, is obviously waging a very unequal war; and even though it should not be tired early, it will be likely to be tired sooner than its adversaries."

The Bank would be obliged, therefore, ultimately to adopt the only remedy in their power to put a stop to the demand for guineas. They would withdraw part of their notes from circulation, till they should have increased the value of the remainder to that of gold bullion, and, consequently, to the value of the currencies of other countries. All advantage from the exportation of gold bullion would then cease, and there would be no temptation to exchange bank notes for guineas.

In this view of the subject, then, it appears that the temptation to export money in exchange for goods, or what is termed an unfavourable balance of trade, never arises but from a redundant currency. But Mr Thornton, who has considered this subject very much at large, supposes that a very unfavourable balance of trade may be occasioned to this country by a bad harvest, and the consequent importation of corn; and that there may be at the same time an unwillingness in the country to which we are indebted to receive our goods in payment; the balance due to the foreign country must therefore be paid out of that part of our currency consisting of coin, and that hence arises the demand for gold bullion, and its increased price. He considers the Bank as affording considerable accommodation to the merchants, by supplying with their notes the void occasioned by the exportation of the specie.

As it is acknowledged by Mr Thornton, in many parts of his work, that the price of gold bullion is rated in gold coin, and as it is also acknowledged by him that the law against melting gold coin

into bullion, and exporting it, is easily evaded, it follows, that no demand for gold bullion, arising from this or any other cause, can raise the money price of that commodity. The error of this reasoning proceeds from not distinguishing between an increase in the value of gold, and an increase in its money price.

If there were a great demand for corn, its money price would advance, because, in comparing corn with money, we in fact compare it with another commodity; and, for the same reason, when there is a great demand for gold, its corn price will increase; but in neither case will a bushel of corn be worth more than a bushel of corn, or an ounce of gold more than an ounce of gold. An ounce of gold bullion could not, whatever the demand might be, whilst its price was rated in gold coin, be of more value than an ounce of coined gold, or 3*l*. 17s. 10½d.

If this argument should not be considered as conclusive, I should urge that a *void* in the currency, as here supposed, can only be occasioned by the annihilation or limitation of paper currency, and then it would speedily be filled by importations of bullion, which its increased value, in consequence of the diminution of circulating medium, would infallibly attract to the advantageous market. However great the scarcity of corn might be, the exportation of money would be limited by its increasing scarcity. Money is in such general demand, and, in the present state of civilization, is so essential to commercial transactions, that it can never be exported to excess; even in a war, such as the present, when our enemy endeavours to interdict all commerce with us, the value which the currency would bear from its increasing scarcity would prevent the exportation of it from being carried so far as to occasion a void in the circulation.

Mr Thornton has not explained to us why any unwillingness should exist in the foreign country to receive our goods in exchange for their corn; and it would be necessary for him to show, that if such an unwillingness were to exist, we should agree to indulge it so far as to consent to part with our coin.

If we consent to give coin in exchange for goods, it must be from choice, not necessity. We should not import more goods than we export, unless we had a redundancy of currency, which it therefore suits us to make a part of our exports. The exportation of the coin is caused by its cheapness, and is not the effect, but the cause of an unfavourable balance: we should not export it, if we did not send it to a better market, or if we had any commodity which we could export more profitably. It is a salutary remedy for a redundant currency; and as I have already endeavoured to prove that redundancy or excess is only a relative term, it follows that the demand for it abroad arises only from the comparative deficiency of the currency of the importing country, which there causes its superior value.

It resolves itself entirely into a question of interest. If the sellers

of the corn to England, to the amount, I will suppose, of a million, could import goods which cost a million in England, but would produce, when sold abroad, more than if the million had been sent in money, goods would be preferred; if otherwise, money would be demanded.

It is only after a comparison of the value in their markets and in our own of gold and other commodities, and because gold is cheaper in the London market than in theirs, that foreigners prefer gold in exchange for their corn. If we diminish the quantity of currency, we give an additional value to it: this will induce them to alter their election, and prefer the commodities. If I owed a debt in Hamburgh of 100*l.*, I should endeavour to find out the cheapest mode of paying it. If I send money, the expense attending its transportation being, I will suppose, 5*l.*, to discharge my debt will cost me 105*l.* If I purchase cloth here, which, with the expenses attending its exportation, will cost me 106*l.*, and which will in Hamburgh sell for 100*l.*, it is evidently more to my advantage to send the money. If the purchase and expenses of sending hardware to pay my debt will take 107*l.*, I should prefer sending cloth to hardware, but I would send neither in preference to money, because money would be the cheapest exportable commodity in the London market. The same reasons would operate with the exporter of the corn, if the transaction were on his own account. But if the Bank, "fearful for the safety of their establishment," and knowing that the requisite number of guineas would be withdrawn from their coffers at the Mint price, should think it necessary to diminish the amount of their notes in circulation, the proportion between the value of the money, of the cloth, and of the hardware, would no longer be as 105, 106, and 107; but the money would become the most valuable of the three, and therefore would be less advantageously employed in discharging the foreign debts.

If, which is a much stronger case, we agreed to pay a subsidy to a foreign power, money would not be exported whilst there were any goods which could more cheaply discharge the payment. The interest of individuals would render the exportation of the money unnecessary.*

Thus, then, specie will be sent abroad to discharge a debt only when it is superabundant; only when it is the cheapest exportable commodity. If the Bank were at such a time paying their notes in specie, gold would be demanded for that purpose. It would be

* This is strongly corroborated by the statement of Mr Rose in the House of Commons, that our exports exceeded our imports by (I believe) 16 millions. In return for those exports no bullion could have been imported, because it is well known that the price of bullion having been, during the whole year, higher abroad than in this country, a large quantity of our gold coin has been exported. To the value of the balance of exports, therefore, must be added the value of the bullion exported. A part of the amount may be due to us from foreign nations, but the remainder must be precisely equal to our foreign expenditure, consisting of subsidies to our allies, and the maintenance of our fleets and armies on foreign stations.

obtained there at its Mint price, whereas its price as bullion would be something above its value as coin, because bullion could, and coin could not, be legally exported.

It is evident, then, that a depreciation of the circulating medium is the necessary consequence of its redundance; and that in the common state of the national currency this depreciation is counteracted by the exportation of the precious metals.*

Such, then, appear to me to be the laws that regulate the distribution of the precious metals throughout the world, and which cause and limit their circulation from one country to another, by regulating their value in each. But before I proceed to examine on these principles the main object of my inquiry, it is necessary that I should show what is the standard measure of value in this country, and of which, therefore, our paper currency ought to be the representative, because it can only be by a comparison to this standard that its regularity, or its depreciation, may be estimated.

No permanent† measure of value can be said to exist in any nation while the circulating medium consists of two metals, because they are constantly subject to vary in value with respect to each other. However exact the conductors of the Mint may be, in proportioning the relative value of gold to silver in the coins, at the time when they fix the ratio, they cannot prevent one of these metals from rising, while the other remains stationary, or falls in value.

* It has been observed, in a work of great and deserved repute, the *Edinburgh Review*, Vol. i. p. 183, that an increase in the paper currency will only occasion a rise in the *paper* or *currency* price of commodities, but will not cause an increase in their bullion price.

This would be true at a time when the currency consisted wholly of paper not convertible into specie, but not while specie formed any part of the circulation. In the latter case the effect of an increased issue of paper would be to throw out of circulation an equal amount of specie; but this could not be done without adding to the quantity of bullion in the market, and thereby lowering its value, or, in other words, *increasing the bullion price of commodities*. It is only in consequence of this fall in the value of the metallic currency, and of bullion, that the temptation to export them arises; and the penalties on melting the coin is the sole cause of a small difference between the value of the coin and of bullion, or a small excess of the market above the mint price. But exporting of bullion is synonymous with an unfavourable balance of trade. From whatever cause an exportation of bullion, in exchange for commodities, may proceed, it is called (I think very incorrectly) an unfavourable balance of trade.

When the circulation consists wholly of paper, any increase in its quantity will raise the *money* price of bullion without lowering its *value*, in the same manner, and in the same proportion, as it will raise the prices of other commodities, and for the same reason will lower the foreign exchanges; but this will only be a *nominal*, not a *real* fall, and will not occasion the exportation of bullion, because the real value of bullion will not be diminished, as there will be no increase to the quantity in the market.

† Strictly speaking, there can be no permanent measure of value. A measure of value should itself be invariable; but this is not the case with either gold or silver, they being subject to fluctuations as well as other commodities. Experience has indeed taught us, that though the variations in the *value* of gold or silver may be considerable, on a comparison of distant periods, yet, for short spaces of time, their value is tolerably fixed. It is this property, among other excellences, which fits them better than any other commodity for the uses of money. Either gold or silver may therefore, in the point of view in which we are considering them, be called a measure of value.

Whenever this happens, one of the coins will be melted to be sold for the other. Mr Locke, Lord Liverpool, and many other writers, have ably considered this subject, and have all agreed, that the only remedy for the evils in the currency proceeding from this source, is the making one of the metals only the standard measure of value. Mr Locke considered silver as the most proper metal for this purpose, and proposed that gold coins should be left to find their own value, and pass for a greater or lesser number of shillings, as the market price of gold might vary with respect to silver.

Lord Liverpool, on the contrary, maintained that gold was not only the most proper metal for a general measure of value in this country, but that, by the common consent of the people, it had become so, was so considered by foreigners, and that it was best suited to the increased commerce and wealth of England.

He, therefore, proposed, that gold coin only should be a legal tender for sums exceeding one guinea, and silver coins for sums not exceeding that amount. As the law now stands, gold coin is a legal tender for all sums; but it was enacted in the year 1774, "That no tender in payment of money made in the silver coin of this realm, of any sum exceeding the sum of twenty-five pounds at any one time, shall be reputed in law, or allowed to be legal tender within Great Britain or Ireland, for more than according to its value by weight, after the rate of 5s. 2d. for each ounce of silver." The same regulation was revived in 1798, and is now in force.

For many reasons given by Lord Liverpool, it appears, proved beyond dispute, that gold coin has been for near a century the principal measure of value; but this is, I think, to be attributed to the inaccurate determination of the Mint proportions. Gold has been valued too high; no silver, therefore, can remain in circulation which is of its standard weight.

If a new regulation were to take place, and silver to be valued too high, or (which is the same thing) if the market proportions between the prices of gold and silver were to become greater than those of the Mint, gold would then disappear, and silver become the standard currency.

This may require further explanation. The relative value of gold and silver in the coins is as $15\frac{2}{1}\frac{1}{4}$ to 1. An ounce of gold which is coined into 3*l.* 17s. $10\frac{1}{2}$d. of gold coin, is worth, according to the Mint regulation, $15\frac{2}{1}\frac{1}{4}$ ounces of silver, because that weight of silver is also coined into 3*l.* 17s. $10\frac{1}{2}$d. of silver coin. Whilst the relative value of gold to silver is in the market under 15 to 1, which it has been for a great number of years till lately, gold coin would necessarily be the standard measure of value, because neither the Bank nor any individual would send $15\frac{2}{1}\frac{1}{4}$ ounces of silver to the Mint to be coined into 3*l.* 17s. $10\frac{1}{2}$d., when they could sell that quantity of silver in the market for more than 3*l.* 17s. $10\frac{1}{2}$d. in gold coin; and this they could do by the supposition, that less than 15 ounces of silver would purchase an ounce of gold.

But if the relative value of gold to silver be more than the Mint proportion of $15_{\frac{1}{2}}\frac{9}{24}$ to 1, no gold would then be sent to the Mint to be coined, because as either of the metals are a legal tender to any amount, the possessor of an ounce of gold would not send it to the Mint to be coined into 3*l.* 17s. $10\frac{1}{2}$d. of gold coin, whilst he could sell it, which he could do in such a case, for more than 3*l.* 17s. $10\frac{1}{2}$d. of silver coin. Not only would not gold be carried to the Mint to be coined, but the illicit trader would melt the gold coin, and sell it as bullion for more than its nominal value in the silver coin. Thus, then, gold would disappear from circulation, and silver coin become the standard measure of value. As gold has lately experienced a considerable rise compared with silver (an ounce of standard gold, which, on an average of many years, was of equal value to $14\frac{3}{4}$ ounces of standard silver, being now in the market of the same value as $15\frac{1}{2}$ ounces), this would be the case now were the Bank restriction bill repealed, and the coinage of silver freely allowed at the Mint, in the same manner as that of gold; but in an act of Parliament of 39 Geo. III. is the following clause:—

"Whereas inconvenience may arise from any coinage of silver until such regulations may be formed as shall appear necessary; and whereas from the present low price of silver bullion, owing to temporary circumstances, a small quantity of silver bullion has been brought to the Mint to be coined, and there is reason to suppose that a still further quantity may be brought; and it is, therefore, necessary to suspend the coining of silver for the present; be it therefore enacted, That from and after the passing of this act, no silver bullion shall be coined at the Mint, nor shall any silver coin that may have been coined there be delivered, any law to the contrary notwithstanding."

This law is now in force.

It would appear, therefore, to have been the intention of the legislature to establish gold as the standard of currency in this country. Whilst this law is in force, silver coin must be confined to small payments only, the quantity in circulation being barely sufficient for that purpose. It might be for the interest of a debtor to pay his large debts in silver coin if he could get silver bullion coined into money; but being prevented by the above law from doing so, he is necessarily obliged to discharge his debt with gold coin, which he could obtain at the Mint with gold bullion to any amount. Whilst this law is in force, gold must always continue to be the standard of currency.

Were the market value of an ounce of gold to become equal to thirty ounces of silver, gold would nevertheless be the measure of value, whilst this prohibition continued in force. It would be of no avail, that the possessor of 30 ounces of silver should know that he once could have discharged a debt of 3*l.* 17s. $10\frac{1}{2}$d. by procuring $15_{\frac{1}{2}}\frac{9}{24}$ ounces of silver to be coined at the Mint, as he would in this

case have no other means of discharging his debt but by selling his 30 oz. of silver at the market value, that is to say, for one ounce of gold, or 3*l.* 17s. 10½d. of gold coin.

The public has sustained, at different times, very serious loss from the depreciation of the circulating medium, arising from the unlawful practice of clipping the coins.

In proportion as they become debased, so the prices of every commodity for which they are exchangeable rise in nominal value, not excepting gold and silver bullion: accordingly we find, that before the recoinage in the reign of King William the Third, the silver currency had become so degraded, that an ounce of silver, which ought to be contained in 62 pence, sold for 77 pence; and a guinea, which was valued at the Mint at 20 shillings, passed in all contracts for 30 shillings. This evil was then remedied by the recoinage. Similar effects followed from the debasement of the gold currency, which were again corrected in 1774 by the same means.

Our gold coins have, since 1774, continued nearly at their standard purity; but our silver currency has again become debased. By an assay at the Mint in 1798, it appears that our shillings were found to be 24 per cent., and our sixpences 38 per cent., under their Mint value; and I am informed, that by a late experiment they were found considerably more deficient. They do not, therefore, contain as much pure silver as they did in the reign of King William. This debasement, however, did not operate previously to 1798, as on the former occasion. At that time both gold and silver bullion rose in proportion to the debasement of the silver coin. All foreign exchanges were against us full 20 per cent., and many of them still more. But although the debasement of the silver coin had continued for many years, it had neither, previously to 1798, raised the price of gold nor silver, nor had it produced any effect on the exchanges. This is a convincing proof, that gold coin was, during that period, considered as the standard measure of value. Any debasement of the gold coin would then have produced the same effects on the prices of gold and silver bullion, and on the foreign exchanges, which were formerly caused by the debasement of the silver coins.*

While the currency of different countries consists of the precious metals, or of a paper money which is at all times exchangeable for them; and while the metallic currency is not debased by wearing or clipping, a comparison of the weight and degree of fineness of their coins will enable us to ascertain their par of exchange. Thus the par of exchange between Holland and England is stated to be about eleven florins, because the pure silver contained in eleven

* When the gold coin was debased, previously to the recoinage in 1774, gold and silver bullion rose above their Mint prices, and fell immediately on the gold coin attaining its present perfection. The exchanges were, owing to the same causes, from being unfavourable rendered favourable.

florins is equal to the pure silver contained in twenty standard shillings.

This par is not, nor can it be, absolutely fixed; because gold coin being the standard of commerce in England, and silver coin in Holland, a pound sterling, or $\frac{20}{21}$ of a guinea, may at different times be more or less valuable than twenty standard shillings, and therefore more or less valuable than its equivalent of eleven florins. Estimating the par either by silver or by gold will be sufficiently exact for our purpose.

If I owe a debt in Holland, by knowing the par of exchange, I also know the quantity of our money which will be necessary to discharge it.

If my debt amount to 1,100 florins, and gold have not varied in value, 100*l.* in our pure gold coin will purchase as much Dutch currency as is necessary to pay my debt. By exporting the 100*l.* therefore in coin, or (which is the same thing) paying a bullion merchant the 100*l.* in coin, and allowing him the expenses attending its transportation, such as freight, insurance, and his profit, he will sell me a bill which will discharge my debt; at the same time he will export the bullion to enable his correspondent to pay the bill when it shall become due.

These expenses, then, are the utmost limits of an unfavourable exchange. However great my debt may be, though it equalled the largest subsidy ever given by this country to an ally; while I could pay the bullion merchant in coin of standard value, he would be glad to export it, and to sell me bills. But if I pay him for his bill in a debased coin, or in a depreciated paper-money, he will not be willing to sell me his bill at this rate; because if the coin be debased it does not contain the quantity of pure gold or silver which ought to be contained in 100*l.*, and he must therefore export an additional number of such debased pieces of money to enable him to pay my debt of 100*l.*, or its equivalent, 1,100 florins. If I pay him in paper-money, as he cannot send it abroad, he will consider whether it will purchase as much gold or silver bullion as is contained in the coin for which it is a substitute; if it will do this, paper will be as acceptable to him as coin; but if it will not, he will expect a further premium for his bill, equal to the depreciation of the paper.

While the circulating medium consists, therefore, of coin undebased, or of paper-money immediately exchangeable for undebased coin, the exchange can never be more above, or more below par, than the expenses attending the transportation of the precious metals. But when it consists of a depreciated paper-money, it necessarily will fall according to the degree of the depreciation.

The exchange will, therefore, be a tolerably accurate criterion by which we may judge of the debasement of the currency, proceeding either from a clipped coinage or a depreciated paper-money.

It is observed by Sir James Stuart, "That if the foot measure

was altered at once over all England, by adding to it or taking from it any proportional part of its standard length, the alteration would be best discovered by comparing the new foot with that of Paris, or of any other country which had suffered no alteration.

"Just so, if the pound sterling, which is the English unit, shall be found any how changed, and if the variation it has met with be difficult to ascertain because of a complication of circumstances, the best way to discover it will be to compare the former and the present value of it with the money of other nations which has suffered no variation. This the exchange will perform with the greatest exactness."

The Edinburgh reviewers, in speaking of Lord King's pamphlet, observe, that "it does not follow because our imports always consist partly of bullion that the balance of trade is therefore permanently in our favour. Bullion," they say, "is a commodity for which, as for every other, there is a varying demand, and which, exactly like any other, may enter the catalogue either of imports or exports; and this exportation or importation of bullion will not affect the course of exchange in a different way from the exportation or importation of any other commodities."

No person ever exports or imports bullion without first considering the rate of exchange. It is by the rate of exchange that he discovers the relative value of bullion in the two countries between which it is estimated. It is therefore consulted by the bullion merchant in the same manner as the price-current is by other merchants, before they determine on the exportation or importation of other commodities. If eleven florins in Holland contain an equal quantity of pure silver as 20 standard shillings, silver bullion, equal in weight to 20 standard shillings, can never be exported from London to Amsterdam whilst the exchange is at par, or unfavourable to Holland. Some expense and risk must attend its exportation, and the very term *par* expresses that a quantity of silver bullion, equal to that weight and purity, is to be obtained in Holland by the purchase of a bill of exchange, free of all expense. Who would send bullion to Holland at an expense of 3 or 4 per cent. when, by the purchase of a bill at par, he in fact obtains an order for the delivery to his correspondent in Holland of the same weight of bullion which he was about to export?

It would be as reasonable to contend that, when the price of corn is higher in England than on the Continent, corn would be sent, notwithstanding all the charges on its exportation, to be sold in the cheaper market.

Having already noticed the disorders to which a metallic currency is exposed, I will proceed to consider those which, though not caused by the debased state of either the gold or silver coins, are nevertheless more serious in their ultimate consequences.

Our circulating medium is almost wholly composed of paper,

and it behoves us to guard against the depreciation of the paper currency with at least as much vigilance as against that of the coins.

This we have neglected to do.

Parliament, by restricting the Bank from paying in specie, have enabled the conductors of that concern to increase or decrease at pleasure the quantity and amount of their notes; and the previously existing checks against an over-issue having been thereby removed, those conductors have acquired the power of increasing or decreasing the value of the paper currency.

In tracing the present evils to their source, and proving their existence by an appeal to the two unerring tests I have before mentioned, namely, the rate of exchange and the price of bullion, I shall avail myself of the account given by Mr Thornton of the conduct of the Bank before the restriction, to show how clearly they acted on the principle which he has expressly acknowledged, viz. that the value of their notes is dependent on their amount, and that they ascertained the variation in their value by the tests I have just referred to.

Mr Thornton tells us, "That, if at any time the exchanges of the country become so unfavourable as to produce a material excess of the market above the Mint price of gold, the directors of the Bank, as appears by the evidence of some of their body given to parliament, were disposed to resort to a reduction of their paper, as a means of diminishing or removing the excess, and of *thus providing for the security of their establishment.* They, moreover, have at all times," he says, "been accustomed to observe some limit as to the quantity of their notes for the same prudential reasons." And in another place: "When the price which our coin will fetch in foreign countries is such as to tempt it out of the kingdom, the directors of the Bank naturally diminish, in some degree, the quantity of their paper *through an anxiety for the safety of their establishment.* By diminishing their paper, they raise its value; and in raising its value, they raise also the value in England of the current coin which is exchanged for it. Thus, the value of our gold coin conforms itself to the value of the current paper, and the current paper is rendered by the Bank directors of that value which it is necessary that it should bear in order to prevent large exportations,—a value sometimes rising a little above, and sometimes falling a little below, the price which our coin bears abroad."

The necessity which the Bank felt itself under to guard the safety of its establishment, therefore, always prevented, before the restriction from paying in specie, a too lavish issue of paper-money.

Thus we find that, for a period of twenty-three years previously to the suspension of cash payments in 1797, the average price of gold bullion was 3*l.* 17s. 7¾d. per oz., about 2¾d. under the Mint price; and for sixteen years previously to 1774, it never was much

above 4*l.* per oz. It should be remembered, that during these sixteen years our gold coin was debased by wearing, and it is therefore probable that 4*l.* of such debased money did not weigh as much as the ounce of gold for which it was exchanged.

Dr A. Smith considers every permanent excess of the market above the Mint price of gold, as referable to the state of the coins. While the coin was of its standard weight and purity, the market price of gold bullion, he thought, could not greatly exceed the Mint price.

Mr Thornton contends that this cannot be the only cause. "We have," he says, "lately experienced fluctuations in our exchanges, and correspondent variations in the market, compared with the Mint price of gold, amounting to no less than 8 or 10 per cent.; the state of our coinage continuing in all respects the same." Mr Thornton should have reflected, that at the time he wrote, specie could not be demanded at the Bank in exchange for notes; that this was a cause for the depreciation of the currency which Dr Smith could never have anticipated. If Mr Thornton had proved that there had been a fluctuation of 10 per cent. in the price of gold, while the Bank paid their notes in specie, and the coin was undebased, he would then have convicted Dr Smith of "having treated this important subject in a defective and unsatisfactory manner."*

But as all checks against the over-issues of the Bank are now removed by the act of parliament, which restricts them from paying their notes in specie, they are no longer bound by "*fears for the safety of their establishment*," to limit the quantity of their notes to that sum which shall keep them of the same value as the coin which they represent. Accordingly, we find that gold bullion has risen from 3*l.* 17s. 7¾d., the average price previously to 1797, to 4*l.* 10s., and has been lately as high as 4*l.* 13s. per oz.

* An excess in the market above the Mint price of gold or silver bullion, may, whilst the coins of both metals are legal tender, and there is no prohibition against the coinage of either metal, be caused by a variation in the relative value of those metals; but an excess of the market above the Mint price proceeding from this cause will be at once perceived by its affecting only the price of one of the metals. Thus, gold would be at or below, while silver was above, its Mint price, or silver at or below its Mint price, whilst gold was above.

In the latter end of 1795, when the Bank had considerably more notes in circulation than either the preceding or the subsequent year, when their embarrassments had already commenced, when they appear to have resigned all prudence in the management of their concerns, and to have constituted Mr Pitt sole director, the price of gold bullion did for a short time rise to 4*l.* 3s., or 4*l.* 4s. per oz.; but the directors were not without their fears for the consequences. In a remonstrance sent by them to Mr Pitt, dated October 1795, after stating, "that the demand for gold not appearing likely soon to cease," and "that it had excited great apprehension in the court of directors," they observe, "The present price of gold being 4*l.* 3s. to 4*l.* 4s.† per ounce, and our guineas being to be purchased at 3*l.* 17s. 10½d., clearly demonstrates the grounds of our fears; *it being only necessary to state those facts to the Chancellor of the Exchequer.*" It is remarkable that no price of gold above the Mint price is quoted during the whole year in Wetenhall's list. In December it is there marked 3*l.* 17s. 6d.

† It is difficult to determine on what authority the directors made this assertion, as by a return lately made to parliament it appears that during the year 1795 they did not purchase gold bullion at a price higher than 3*l.* 17s. 6d.

We may, therefore, fairly conclude, that this difference in the relative value, or, in other words, that this depreciation in the actual value of bank notes has been caused by the too abundant quantity which the Bank has sent into circulation. The same cause which has produced a difference of from 15 to 20 per cent. in bank notes when compared with gold bullion, may increase it to 50 per cent. There can be no limit to the depreciation which may arise from a constantly increasing quantity of paper. The stimulus which a redundant currency gives to the exportation of the coin has acquired new force, but cannot, as formerly, relieve itself. We have paper-money only in circulation, which is necessarily confined to ourselves. Every increase in its quantity degrades it below the value of gold and silver bullion, below the value of the currencies of other countries.

The effect is the same as that which would have been produced from clipping our coins.

If one-fifth were taken off from every guinea, the market price of gold bullion would rise one-fifth above the Mint price. Forty-four guineas and a half (the number of guineas weighing a pound, and therefore called the Mint price), would no longer weigh a pound, therefore a fifth more than that quantity, or about 56*l.* would be the price of a pound of gold, and the difference between the market and the Mint price, between 56*l.* and 46*l.* 14s. 6d. would measure the depreciation.

If such debased coin were to continue to be called by the name of guineas, and if the value of gold bullion and all other commodities were rated in the debased coin, a guinea fresh from the Mint would be said to be worth 1*l.* 5s., and that sum would be given for it by the illicit trader; but it would not be the value of the new guinea which had increased, but that of the debased guineas which had fallen. This would immediately be evident, if a proclamation were issued, prohibiting the debased guineas from being current but by weight at the Mint price of 3*l.* 17s. 10½d.; this would be constituting the new and heavy guineas the standard measure of value, in lieu of the clipped and debased guineas. The latter would then pass at their true value, and be called 17 or 18 shillings-pieces. So if a proclamation to the same effect were now enforced, bank notes would not be less current, but would pass only for the value of the gold bullion which they would purchase. A guinea would then no longer be said to be worth 1*l.* 5s., but a pound note would be current only for 16 or 17 shillings. At present gold coin is only a commodity, and bank notes are the standard measure of value, but in that case gold coin would be that measure, and bank notes would be the marketable commodity.

"It is," says Mr Thornton, "the maintenance of our general exchanges, or, in other words, it is the agreement of the Mint price with the bullion price of gold, which seems to be the true proof that the circulating paper is not depreciated."

When the motive for exporting gold occurs, while the Bank do not pay in specie, and gold cannot therefore be obtained at its Mint price, the small quantity that can be procured will be collected for exportation, and bank notes will be sold at a discount for gold in proportion to their excess. In saying, however, that gold is at a high price, we are mistaken; it is not gold, it is paper which has changed its value. Compare an ounce of gold, or 3*l.* 17s. 10½d. to commodities, it bears the same proportion to them which it has before done; and if it do not, it is referable to increased taxation, or to some of those causes which are so constantly operating on its value. But if we compare the substitute of an ounce of gold, 3*l.* 17s. 10½d. in bank notes, with commodities, we shall then discover the depreciation of the bank notes. In every market of the world I am obliged to part with 4*l.* 10s. in bank notes to purchase the same quantity of commodities which I can obtain for the gold that is in 3*l.* 17s. 10½d. of coin.

It is often asserted, that a guinea is worth at Hamburgh 26 or 28 shillings; but we should be very much deceived if we should therefore conclude that a guinea could be sold at Hamburgh for as much silver as is contained in 26 or 28 shillings. Before the alteration in the relative value of gold and silver, a guinea would not sell at Hamburgh for as much silver coin as is contained in 21 standard shillings; it will at the present market price sell for a sum of silver currency, which, if imported and carried to our Mint to be coined, will produce in our standard silver coin 21s. 5d.*

It is nevertheless true, that the same quantity of silver will, at Hamburgh, purchase a bill payable in London, in bank notes, for 26 or 28 shillings. Can there be a more satisfactory proof of the depreciation of our circulating medium?

It is said, that, if the Restriction-bill were not in force, every guinea would leave the country.†

This is, no doubt, true; but if the Bank were to diminish the quantity of their notes until they had increased their value 15 per cent., the restriction might be safely removed, as there would then be no temptation to export specie. However long it may be deferred, however great may be the discount on their notes, the Bank can never resume their payments in specie, until they first reduce the amount of their notes in circulation to these limits.

The law is allowed by all writers on political economy to be a useless barrier against the exportation of guineas: it is so easily evaded, that it is doubted whether it has had the effect of keeping a single guinea more in England than there would have been without such law. Mr Locke, Sir J. Stuart, Dr A. Smith, Lord

* The relative value of gold and silver is, on the Continent, nearly the same as in London.

† It must be meant that every guinea in the Bank would leave the country; the temptation of 15 per cent. is amply sufficient to send those out which can be collected from the circulation.

Liverpool, and Mr Thornton, all agree on this subject. The latter gentleman observes, "that the state of the British law unquestionably serves to discourage and limit, though not effectually to hinder, that exportation of guineas which is encouraged by an unfavourable balance of trade, and perhaps scarcely lessens it when the profit on exportation becomes very great." Yet, after every guinea that can in the present state of things be procured by the illicit trader has been melted and exported, he will hesitate before he openly buys guineas with bank notes at a premium, because, though considerable profit may attend such speculation, he will thereby render himself an object of suspicion. He may be watched, and prevented from effecting his object. As the penalties of the law are severe, and the temptation to informers great, secrecy is essential to his operations. When guineas can be procured by merely sending a bank note for them to the Bank, the law will be easily evaded; but when it is necessary to collect them openly and from a widely diffused circulation, consisting almost wholly of paper, the advantage attending it must be very considerable before any one will encounter the risk of being detected.

When we reflect that above 60 millions sterling have been coined into guineas during his present Majesty's reign, we may form some idea of the extent to which the exportation of gold must have been carried.—But repeal the law against the exportation of guineas, permit them to be openly sent out of the country, and what can prevent an ounce of standard gold in guineas from selling at as good a price for bank notes as an ounce of Portuguese gold coin, or standard gold in bars, when it is known to be equal to them in fineness? And if an ounce of standard gold in guineas would sell in the market, as standard bars do now, at 4*l.* 10s. per oz., or, as they have lately done, at 4*l.* 13s. per oz., what shopkeeper would sell his goods at the same price either for gold or bank notes indifferently? If the price of a coat were 3*l.* 17s. 10½d. or an ounce of gold, and if at the same time an ounce of gold would sell for 4*l.* 13s., is it conceivable that it would be a matter of indifference to the tailor whether he were paid in gold or in bank notes?

It is only because a guinea will not purchase more than a pound-note and a shilling that many hesitate to allow that bank notes are at a discount. The *Edinburgh Review* supports the same opinion; but, if my reasoning be correct, I have shown such objections to be groundless.

Mr Thornton has told us that an unfavourable trade will account for an unfavourable exchange; but we have already seen that an unfavourable trade, if such be an accurate term, is limited in its effects on the exchange. That limit is probably 4 or 5 per cent. This will not account for a depreciation of 15 or 20 per cent. Moreover, Mr Thornton has told us, and I entirely agree with him, "that it may be laid down as a general truth, that the commercial exports and imports of a state naturally proportion themselves in

some degree to each other, and that the balance of trade, therefore, cannot continue for a very long time to be either highly favourable or highly unfavourable to a country." Now, the low exchange, so far from being temporary, existed before Mr Thornton wrote in 1802, and has since been progressively increasing, and is now from 15 to 20 per cent. against us. Mr Thornton must therefore, according to his own principles, attribute it to some more permanent cause than an unfavourable balance of trade, and will, I doubt not, whatever his opinion may formerly have been, now agree that it is to be accounted for only by the depreciation of the circulating medium.

It can, I think, no longer be disputed that bank notes are at a discount. While the price of gold bullion is 4*l.* 10s. per oz., or, in other words, while any man will consent to give that which professes to be an obligation to pay nearly an ounce and a sixth of an ounce of gold for an ounce, it cannot be contended that 4*l.* 10s. in notes and 4*l.* 10s. in gold coin are of the same value.

An ounce of gold is coined into 3*l.* 17s. 10½d.; by possessing that sum, therefore, I have an ounce of gold, and would not give 4*l.* 10s. in gold coin, or notes which I could immediately exchange for 4*l.* 10s., for an ounce of gold.

It is contrary to common sense to suppose that such could be the market value, unless the price were estimated in a depreciated medium.

If the price of gold were estimated in *silver*, indeed, the price might rise to 4*l.*, 5*l.*, or 10*l.* an ounce, and it would of itself be no proof of the depreciation of paper currency, but of an alteration in the relative value of gold and silver. I have, however, I think, proved that silver is not the standard measure of value, and therefore not the medium in which the value of gold is estimated. But if it were, as an ounce of gold is only worth in the market 15½ ounces of silver, and as 15½ ounces of silver is precisely equal in weight, and is therefore coined into 80 shillings, an ounce of gold ought not to sell for more than 4*l.*

Those, then, who maintain that silver is the measure of value, cannot prove that any demand for gold which may have taken place, from whatever cause it may have proceeded, can have raised its price above 4*l.* per oz. All above that price must, on their own principles, be called a depreciation in the value of bank notes. It therefore follows, that if bank notes be the representative of silver coin, then an ounce of gold, selling as it now does for 4*l.* 10s., sells for an amount of notes which represent 17½ ounces of silver, whereas, in the bullion market, it can only be exchanged for 15½ ounces. Fifteen ounces and a half of silver bullion are therefore of equal value with an engagement of the Bank to pay to *bearer* seventeen ounces and a half.

The market price of silver is at the present time 5s. 9½d. per oz., estimated in bank notes, the Mint price being only 5s. 2d., conse-

quently, the standard silver in 100*l.* is worth more than 112*l.* in bank notes.

But bank notes, it may be said, are the representatives of our debased silver coin, and not of our standard silver. This is not true, because the law which I have already quoted declares silver to be a legal tender for sums only not exceeding 25*l.*, except by weight. If the Bank insisted on paying the holder of a bank note of 1000*l.* in silver coin, they would be bound either to give him standard silver of full weight, or debased silver of an equal value, with the exception of 25*l.*, which they might pay him in debased coin. But the 1000*l.*, so consisting of 975*l.* pure money, and 25*l.* debased, is worth more than 1,112*l.* at the present market value of silver bullion.

It is said that the amount of bank notes has not increased in a greater proportion than the augmentation of our trade required, and therefore cannot be excessive. This assertion would be difficult to prove, and if true, no argument but what is delusive could be founded on it. In the first place, the daily improvements which we are making in the art of economizing the use of circulating medium by improved methods of banking, would render the same amount of notes excessive now which were necessary for the same state of commerce at a former period. Secondly, there is a constant competition between the Bank of England and the country banks to establish their notes, to the exclusion of those of their rivals, in every district where the country banks are established.

As the latter have more than doubled in number within very few years, is it not probable that their activity may have been crowned with success, in displacing with their own notes many of those of the Bank of England?

If this have happened, the same amount of Bank of England notes would now be excessive, which, with a less extended commerce, was before barely sufficient to keep our currency on a level with that of other countries. No just conclusion can, therefore, be drawn from the actual amount of bank notes in circulation, though the fact, if examined, would, I have no doubt, be found to be that the increase in the amount of bank notes, and the high price of gold, have usually accompanied each other.

It is doubted whether 2 or 3 millions of bank notes (the sum which the Bank is supposed to have added to the circulation, over and above the amount which it will easily bear) could have had such effects as are ascribed to them; but it should be recollected, that the Bank regulate the amount of the circulation of all the country banks, and it is probable that, if the Bank increase their issues 3 millions, they enable the country banks to add more than 3 millions to the general circulation of England.

The money of a particular country is divided amongst its different provinces by the same rules as the money of the world is divided amongst the different nations of which it is composed. Each

district will retain in its circulation such a proportionate share of the currency of the country as its trade, and consequently its payments, may require, compared to the trade of the whole; and no increase can take place in the circulating medium of one district, without being generally diffused, or calling forth a proportionable quantity in every other district. It is this which keeps a country bank note always of the same value as a Bank of England note. If in London, where Bank of England notes only are current, 1 million be added to the amount in circulation, the currency will become cheaper there than elsewhere, or goods will become dearer. Goods will, therefore, be sent from the country to the London market to be sold at the high prices, or, which is much more probable, the country banks will take advantage of the relative deficiency in the country currency, and increase the amount of their notes in the same proportion as the Bank of England had done; prices would then be generally, and not partially, affected.

In the same manner, if Bank of England notes be diminished 1 million, the comparative value of the currency of London will be increased, and the prices of goods diminished. A Bank of England note will then be more valuable than a country bank note, because it will be wanted to purchase goods in the cheap market; and as the country banks are obliged to give Bank of England notes for their own when demanded, they would be called upon for them till the quantity of country paper should be reduced to the same proportion which it before bore to the London paper, producing a corresponding fall in the prices of all goods for which it was exchangeable.

The country banks could never increase the amount of their notes, unless to fill up a relative deficiency in the country currency, caused by the increased issues of the Bank of England.* If they attempted it, the same check which compelled the Bank of England to withdraw part of their notes from circulation when they used to pay them on demand in specie, would oblige the country banks to adopt the same course. Their notes would, on account of the increased quantity, be rendered of less value than the Bank of England notes, in the same manner as Bank of England notes were rendered of less value than the guineas which they represented. They would therefore be exchanged for Bank of England notes until they were of the same value.

The Bank of England is the great regulator of the country paper. When they increase or decrease the amount of their notes, the country banks do the same; and in no case can country banks add to the general circulation unless the Bank of England shall have previously increased the amount of their notes.

It is contended, that the rate of interest, and not the price of gold or silver bullion, is the criterion by which we may always

* They might, on some occasions, displace Bank of England notes, but that consideration does not affect the question which we are now discussing.

judge of the abundance of paper money; that if it were too abundant, interest would fall, and if not sufficiently so, interest would rise. It can, I think, be made manifest, that the rate of interest is not regulated by the abundance or scarcity of money, but by the abundance or scarcity of that part of capital not consisting of money.

"Money," observes Dr A. Smith, "the great wheel of circulation, the great instrument of commerce, like all other instruments of trade, though it makes a part, and a very valuable part of the capital, makes no part of the revenue of the society to which it belongs; and though the metal pieces of which it is composed, in the course of their annual circulation, distribute to every man the revenue which properly belongs to him, they make themselves no part of that revenue.

"When we compute the quantity of industry which the circulating capital of any society can employ, we must always have regard to those parts of it only which consist in provisions, materials, and finished work: the other, which consists in money, and which serves only to circulate those three, must always be deducted. In order to put industry into motion, three things are requisite:—materials to work upon, tools to work with, and the wages or recompense for the sake of which the work is done. Money is neither a material to work upon nor a tool to work with; and though the wages of the workmen are commonly paid to him in money, his real revenue, like that of all other men, consists not in money, but in money's worth; not in the metal pieces, but what can be got for them."

And in other parts of his work, it is maintained, that the discovery of the mines in America, which so greatly increased the quantity of money, did not lessen the interest for the use of it; the rate of interest being regulated by the profits on the employment of capital, and not by the number or quality of the pieces of metal which are used to circulate its produce.

Mr Hume has supported the same opinion. The value of the circulating medium of every country bears some proportion to the value of the commodities which it circulates. In some countries this proportion is much greater than in others, and varies, on some occasions, in the same country. It depends upon the rapidity of circulation, upon the degree of confidence and credit existing between traders, and, above all, on the judicious operations of banking. In England, so many means of economizing the use of circulating medium have been adopted, that its value, compared with the value of the commodities which it circulates, is probably (during a period of confidence*) reduced to as small a proportion as is practicable. What that proportion may be has been variously estimated.

No increase or decrease of its quantity, whether consisting of

* In the following observations, I wish it to be understood as supposing always the same degree of confidence and credit to exist.

gold, silver, or paper money, can increase or decrease its value above or below this proportion. If the mines cease to supply the annual consumption of the precious metals, money will become more valuable, and a smaller quantity will be employed as a circulating medium. The diminution in the quantity will be proportioned to the increase of its value. In like manner, if new mines be discovered, the value of the precious metals will be reduced, and an increased quantity used in the circulation; so that in either case the relative value of money to the commodities which it circulates will continue as before.

If, whilst the Bank paid their notes on demand in specie, they were to increase their quantity, they would produce little permanent effect on the value of the currency, because nearly an equal quantity of the coin would be withdrawn from circulation and exported.

If the Bank were restricted from paying their notes in specie, and all the coin had been exported, any excess of their notes would depreciate the value of the circulating medium in proportion to the excess. If 20 millions had been the circulation of England before the restriction, and 4 millions were added to it, the 24 millions would be of no more value than the 20 were before, provided commodities had remained the same, and there had been no corresponding exportation of coins; and if the Bank were successively to increase it to 50 or 100 millions, the increased quantity would be all absorbed in the circulation of England, but would be, in all cases, depreciated to the value of the 20 millions.

I do not dispute, that if the Bank were to bring a large additional sum of notes into the market, and offer them on loan, but that they would for a time affect the rate of interest. The same effects would follow from the discovery of a hidden treasure of gold or silver coin. If the amount were large, the Bank, or the owner of the treasure, might not be able to lend the notes or the money at 4, nor perhaps above 3 per cent.; but having done so, neither the notes, nor the money, would be retained unemployed by the borrowers; they would be sent into every market, and would everywhere raise the prices of commodities, till they were absorbed in the general circulation. It is only during the interval of the issues of the Bank, and their effect on prices, that we should be sensible of an abundance of money; interest would, during that interval, be under its natural level; but as soon as the additional sum of notes or of money became absorbed in the general circulation, the rate of interest would be as high, and new loans would be demanded with as much eagerness as before the additional issues.

The circulation can never be over full. If it be one of gold and silver, any increase in its quantity will be spread over the world. If it be one of paper, it will diffuse itself only in the country where it is issued. Its effects on prices will then be only local and nominal, as a compensation by means of the exchange will be made to foreign purchasers

To suppose that any increased issues of the Bank can have the effect of permanently lowering the rate of interest, and satisfying the demands of all borrowers, so that there will be none to apply for new loans, or that a productive gold or silver mine can have such an effect, is to attribute a power to the circulating medium which it can never possess. Banks would, if this were possible, become powerful engines indeed. By creating paper money, and lending it at 3 or 2 per cent. under the present market rate of interest, the Bank would reduce the profits on trade in the same proportion; and if they were sufficiently patriotic to lend their notes at an interest no higher than necessary to pay the expenses of their establishment, profits would be still further reduced; no nation, but by similar means, could enter into competition with us, we should engross the trade of the world. To what absurdities would not such a theory lead us! Profits can only be lowered by a competition of capitals not consisting of circulating medium. As the increase of bank notes does not add to this species of capital, as it neither increases our exportable commodities, our machinery, or our raw materials, it cannot add to our profits nor lower interest.*

When any one borrows money for the purpose of entering into trade, he borrows it as a medium by which he can possess himself of "materials, provisions, &c.," to carry on that trade; and it can be of little consequence to him, provided he obtain the quantity of materials, &c., necessary, whether he be obliged to borrow a thousand, or ten thousand pieces of money. If he borrow ten thousand, the produce of his manufacture will be ten times the nominal value of what it would have been, had one thousand been sufficient for the same purpose. The capital actually employed in the country is necessarily limited to the amount of the "materials, provisions, &c.," and might be made equally productive, though not with equal facility, if trade were carried on wholly by barter. The successive possessors of the circulating medium have the command over this capital: but however abundant may be the quantity of money or of bank notes; though it may increase the nominal prices of commodities; though it may distribute the productive capital in different proportions; though the Bank, by increasing the quantity of their notes, may enable A to carry on part of the business formerly engrossed by B and C, nothing will be added to the real revenue and wealth of the country. B and C may be injured, and A and the Bank may be gainers, but they will gain exactly what B and C lose. There will be a violent and an unjust transfer of property, but no benefit whatever will be gained by the community.

* I have already allowed that the Bank, as far as they enable us to turn our coin into "materials, provisions, &c." have produced a national benefit, as they have thereby increased the quantity of productive capital; but I am here speaking of an excess of their notes, of that quantity which adds to our circulation without effecting any corresponding exportation of coin, and which, therefore, degrades the notes below the value of the bullion contained in the coin which they represent.

For these reasons I am of opinion that the funds are not indebted for their high price to the depreciation of our currency. Their price must be regulated by the general rate of interest given for money. If before the depreciation I gave thirty years' purchase for land, and twenty-five for an annuity in the stocks, I can, after the depreciation, give a larger sum for the purchase of land, without giving more years' purchase, because the produce of the land will sell for a greater nominal value in consequence of the depreciation; but as the annuity in the funds is paid in the depreciated medium, there can be no reason why I should give a greater nominal value for it after than before the depreciation.

If guineas were degraded by clipping to half their present value, every commodity as well as land would rise to double its present nominal value; but as the interest of the stocks would be paid in the degraded guineas, they would, on that account, experience no rise.

The remedy which I propose for all the evils in our currency, is that the Bank should gradually decrease the amount of their notes in circulation until they shall have rendered the remainder of equal value with the coins which they represent, or, in other words, till the prices of gold and silver bullion shall be brought down to their Mint price. I am well aware that the total failure of paper credit would be attended with the most disastrous consequences to the trade and commerce of the country, and even its sudden limitation would occasion so much ruin and distress, that it would be highly inexpedient to have recourse to it as the means of restoring our currency to its just and equitable value.

If the Bank were possessed of more guineas than they had notes in circulation, they could not, without great injury to the country, pay their notes in specie, while the price of gold bullion continued greatly above the Mint price, and the foreign exchanges unfavourable to us. The excess of our currency would be exchanged for guineas at the Bank, and exported, and would be suddenly withdrawn from circulation. Before, therefore, they can safely pay in specie, the excess of notes must be gradually withdrawn from circulation. If gradually done, little inconvenience would be felt; so that the principle were fairly admitted, it would be for future consideration whether the object should be accomplished in one year or in five. I am fully persuaded that we shall never restore our currency to its equitable state, but by this preliminary step, or by the total overthrow of our paper credit.

If the Bank directors had kept the amount of their notes within reasonable bounds; *if they had acted up to the principle which they have avowed to have been that which regulated their issues when they were obliged to pay their notes in specie, namely, to limit their notes to that amount which should prevent the excess of the market above the Mint price of gold, we should not have been now exposed to all the evils of a depreciated, and perpetually varying currency.*

Though the Bank derive considerable advantage from the present system, though the price of their capital stock has nearly doubled since 1797, and their dividends have proportionally increased, I am ready to admit with Mr Thornton, that the directors, as monied men, sustain losses in common with others by a depreciation of the currency, much more serious to them than any advantages which they may reap from it as proprietors of Bank stock. I do, therefore, acquit them of being influenced by interested motives, but their mistakes, if they are such, are in their effects quite as pernicious to the community.

The extraordinary powers with which they are intrusted enable them to regulate at their pleasure the price at which those who are possessed of a particular kind of property, called money, shall dispose of it. The Bank directors have imposed upon these holders of money all the evils of a maximum. To-day it is their pleasure that 4*l.* 10s. shall pass for 3*l.* 17s. 10½d., to-morrow they may degrade 4*l.* 15s. to the same value, and in another year 10*l.* may not be worth more. By what an insecure tenure is property consisting of money or annuities paid in money held! What security has the public creditor that the interest on the public debt, which is now paid in a medium depreciated 15 per cent., may not hereafter be paid in one degraded 50 per cent.? The injury to private creditors is not less serious. A debt contracted in 1797 may now be paid with 85 per cent. of its amount; and who shall say that the depreciation will go no further?

The following observations of Dr Smith on this subject are so important, that I cannot but recommend them to the serious attention of all thinking men.

"The raising the denomination of the coin has been the most usual expedient by which a real public bankruptcy has been disguised under the appearance of a pretended payment. If a sixpence, for example, should, either by act of parliament, or royal proclamation, be raised to the denomination of a shilling, and twenty sixpences to that of a pound sterling, the person who under the old denomination had borrowed twenty shillings, or near four ounces of silver, would, under the new, pay with twenty sixpences, or with something less than two ounces. A national debt of about 120 millions, nearly the capital of the funded debt of Great Britain, might in this manner be paid with about 64 millions of our present money. It would indeed be a pretended payment only, and the creditors of the public would be defrauded of ten shillings in the pound of what was due to them. The calamity, too, would extend much further than to the creditors of the public, and those of every private person would suffer a proportionable loss; and this without any advantage, but in most cases with a great additional loss to the creditors of the public. If the creditors of the public, indeed, were generally much in debt to other people, they might in some measure compensate their loss by paying their creditors in the same coin in

which the public had paid them. But in most countries the creditors of the public are the greater part of them wealthy people, who stand more in the relation of creditors than in that of debtors towards the rest of their fellow citizens. A pretended payment of this kind, therefore, instead of alleviating, aggravates in most cases the loss of the creditors of the public; and without any advantage to the public, extends the calamity to a great number of other innocent people. It occasions a general and most pernicious subversion of the fortunes of private people; enriching in most cases the idle and profuse debtor at the expense of the industrious and frugal creditor, and transporting a great part of the national capital from the hands which are likely to increase and improve it, to those which are likely to dissipate and destroy it. When it becomes necessary for a state to declare itself bankrupt, in the same manner as when it becomes necessary for an individual to do so, a fair, open, and avowed bankruptcy is always the measure which is both least dishonourable to the debtor, and least hurtful to the creditor. The honour of a state is surely very poorly provided for, when, in order to cover the disgrace of a real bankruptcy, it has recourse to a juggling trick of this kind, so easily seen through, and at the same time so extremely pernicious."

These observations of Dr Smith on a debased money are equally applicable to a depreciated paper currency. He has enumerated but a few of the disastrous consequences which attend the debasement of the circulating medium, but he has sufficiently warned us against trying such dangerous experiments. It will be a circumstance ever to be lamented, if this great country, having before its eyes the consequences of a forced paper circulation in America and France, should persevere in a system pregnant with so much disaster. Let us hope that she will be more wise. It is said, indeed, that the cases are dissimilar: that the Bank of England is independent of Government. If this were true, the evils of a superabundant circulation would not be less felt; but it may be questioned whether a bank lending many millions more to Government than its capital and savings, can be called independent of that Government.

When the order of council for suspending the cash payments became necessary in 1797, the run upon the Bank was, in my opinion, caused by political alarm alone, and not by a superabundant, or a deficient quantity (as some have supposed) of their notes in circulation.*

This is a danger to which the Bank, from the nature of its institution, is at all times liable. No prudence on the part of the directors could perhaps have averted it: but if their loans to Government had been more limited; if the same amount of notes had been issued to the public through the medium of discounts; they would have been able, in all probability, to have continued their payments till

* At that period the price of gold kept steadily under its Mint price

the alarm had subsided. At any rate, as the debtors to the Bank would have been obliged to discharge their debts in the space of sixty days, that being the longest period for which any bill discounted by the Bank has to run, the directors would in that time, if necessary, have been enabled to redeem every note in circulation. It was then owing to the too intimate connexion between the Bank and Government that the restriction became necessary; it is to that cause, too, that we owe its continuance.

To prevent the evil consequences which may attend the perseverance in this system, we must keep our eyes steadily fixed on the repeal of the restriction bill.

The only legitimate security which the public can possess against the indiscretion of the Bank is to oblige them to pay their notes on demand in specie; and this can only be effected by diminishing the amount of bank notes in circulation till the nominal price of gold be lowered to the Mint price.

Here I will conclude, happy if my feeble efforts should awaken the public attention to a due consideration of the state of our circulating medium. I am well aware that I have not added to the stock of information with which the public has been enlightened by many able writers on the same important subject. I have had no such ambition. My aim has been to introduce a calm and dispassionate inquiry into a question of great importance to the State, and the neglect of which may be attended with consequences which every friend of his country would deplore.

# APPENDIX.

## OBSERVATIONS ON SOME PASSAGES IN AN ARTICLE IN THE EDINBURGH REVIEW, ON THE DEPRECIATION OF PAPER CURRENCY; ALSO SUGGESTIONS FOR SECURING TO THE PUBLIC A CURRENCY AS INVARIABLE AS GOLD, WITH A VERY MODERATE SUPPLY OF THAT METAL.

The public having called for a new edition of this pamphlet, I avail myself of the occasion to consider the observations which the Edinburgh Reviewers, in the last number of their publication, have done me the honour to make on some of the passages contained in it. I am induced to do this from the conviction that discussion on every point connected with this important subject will hasten the remedy against the existing abuse, and will tend to secure us against the risk of its recurrence in future.

In the article on the depreciation of money, the Reviewers observe, "The great fault of Mr Ricardo's performance is the partial view which he takes of the causes which operate upon the course of exchange. He attributes," they say, "a favourable or an unfavourable exchange *exclusively* to a redundant or deficient currency, and overlooks the varying desires and wants of different societies as an original cause of a temporary excess of imports above exports, or exports above imports." They then comment on the passage in which I have maintained that a bad harvest will not occasion the export of money, unless money is relatively cheap in the exporting country, and conclude their observations by giving it as their decided opinion, that the exportation of money in the supposed case of a bad harvest, "is not occasioned by its cheapness. It is not, as Mr Ricardo endeavours to persuade us, the cause of the unfavourable balance instead of the effect. It is not merely a salutary remedy for a redundant currency: but it is owing precisely to the cause mentioned by Mr Thornton —the unwillingness of the creditor nation to receive a great additional quantity of goods not wanted for immediate consumption without being bribed to it by excessive cheapness; and its willingness to receive bullion—the currency of the commercial world—without any such bribe. *It is unquestionably true, as stated by Mr Ricardo, that no nation will pay a debt in the precious metals if it can do it cheaper by commodities;* but the prices of commodities are liable to great depressions from a glut in the market; whereas the precious metals, on account of their having been constituted by the universal consent of society the general medium of exchange and instrument of commerce, will pay a debt of the largest amount at its nominal estimation, according to the quantity of bullion contained in the respective currencies of the countries in question, and, whatever variations between the quantity of currency and commodities may be stated to take place subsequent to the commencement of these transactions, it cannot be for a moment doubted that the cause of them is to be found in the wants and desires of one of the two nations, and not in any original redundancy or deficiency of currency in either of them."

They agree with me, "that no nation will pay a debt in the precious metals, if it can do it cheaper by commodities, *but the prices of commodities,*" they say, "*are liable to great depressions from a glut in the market;*" of course they must mean in the foreign market, and then the words express the opinion which they are endeavouring to controvert, viz. that when goods cannot be sent out so advantageously as money, money will be exported,—which is another way of saying that money will never be exported, unless it is relatively redundant with commodities, as compared with other countries

Yet, immediately after, they contend, that the exportation of the "precious metals is the *effect of a balance of trade*,* originating in causes which may exist without any relation whatever to redundancy or deficiency of currency." These opinions appear to me directly contradictory. If, however, the precious metals can be exported from a country in exchange for commodities, although they should be as dear in the exporting as in the importing country, what are the effects which will follow from such improvident exportation?

"A comparative deficiency in one country, and redundancy in the other," say the Reviewers, p. 343, "and this state of things could not fail to have a speedy effect in changing the direction of the balance of payments, and in restoring that equilibrium of the precious metals, which had been for a time disturbed by the naturally unequal wants and necessities of the countries which trade with each other." Now it would have been well if the Reviewers had told us at what point this re-action would commence,—as at the first view it appears that the same law which will permit money to be exported from a country, when it is no cheaper than in the importing country, may also allow it to be exported when it is actually dearer. It is self-interest which regulates all the speculations of trade, and where that can be clearly and satisfactorily ascertained, we should not know where to stop if we admitted any other rule of action. They should have explained to us therefore, why, if the demand for the commodity imported should continue, the country importing might not be entirely exhausted of its coin and bullion. What is under such circumstances to check the exportation of the currency? The Reviewers say, because "a country with a diminished quantity of bullion would evidently soon be limited in its powers of paying with the precious metals." Why soon? Is it not admitted "that excess and deficiency of currency are only relative terms; that the circulation of a country can never be superabundant," (and therefore can never be deficient), "except in relation to other countries." Does it not follow from these admissions, that if the balance of trade may become unfavourable to a country, though its currency be not relatively superabundant, that there is no check against the exportation of its coin, whilst any amount of money remains in circulation; as the diminished sum (by acquiring a new value), will as readily and as effectually make the required payments as the larger sum did before? A succession of bad harvests might, on this principle, drain a country of its money, whatever might be its amount, although it consisted exclusively of the precious metals. The observation that its diminished value in the importing country, and its increasing value in the exporting country, would make it revert again to the old channel, does not answer the objection. When will this happen? and in exchange for what will it be returned? The answer is obvious—for commodities. The ultimate result then of all this exportation and importation of money, is that one country will have imported one commodity in exchange for another, and the coin and bullion will in both countries have regained their natural level. Is it to be contended that these results would not be foreseen, and the expense and trouble attending these needless operations effectually prevented, in a country where capital is abundant, where every possible economy in trade is practised, and where competition is pushed to its utmost limits? Is it conceivable that money should be sent abroad for the purpose merely of rendering it dear in this country and cheap in another, and by such means to insure its return to us?

It is particularly worthy of observation that so deep-rooted is the prejudice which considers coin and bullion as things essentially differing in all their operations from other commodities, that writers greatly enlightened upon the general truth of political economy seldom fail, after having requested their readers to consider money and bullion merely as commodities subject to "the same general principle of supply and demand which are unquestionably the foundation on which the whole superstructure of political economy is built;" to forget this recommendation themselves, and to argue upon the subject of money, and the laws which regulate its export and import, as quite distinct and different from those which regulate the export and import of other commodities. Thus the Reviewers, if they had been speaking of coffee or of sugar, would have denied the possibility of those articles being exported from England to the Continent, unless they were dearer there than here. It would have been in vain to have urged to them, that our harvest had been bad, and that we were in want of corn; they would confidently and undeniably have proved that to whatever degree the

* We are here speaking of a *balance of trade* abstracted from a *balance of payments*. A balance of trade may be favourable whilst a balance of payments is unfavourable. It is the balance of payments only which operates on the exchange.

scarcity of corn might have existed, it would not have been possible for England to send, or for France (for example) to be willing to receive, coffee or sugar in return for corn, whilst coffee or sugar cost more money in England than in France. What! they would have said, do you believe it possible for us to send a parcel of coffee to France to sell there for 100*l.* when that coffee cost here 105*l.*—when by sending 100*l.* of the 105*l.* we should equally discharge the debt contracted for the imported corn? And, I say, do you believe it possible that we shall agree to send, or France agree to receive (if the transaction is on her account) 100*l.* in money, when 95*l.* invested in coffee and exported will be equally valuable as the 100*l.* when it arrives in France? But coffee is not wanted in France, there is a glut of it;—allowed, but money is wanted still less, and the proof is, that a hundred pounds' worth of coffee will sell for more than a hundred pounds' worth of money. The only proof which we can possess of the relative cheapness of money in two places, is by comparing it with commodities. Commodities measure the value of money in the same manner as money measures the value of commodities. If, then, commodities will purchase more money in England than in France, we may justly say that money is cheaper in England, and that it is exported to *find* its level, not to *destroy* it. After comparing the relative value of coffee, sugar, ivory, indigo, and all other exportable commodities in the two markets, if I persist in sending money, what further proof can be required of money being actually the cheapest of all these commodities in the English market, in relation to the foreign markets, and therefore the most profitable to be exported? What further evidence is necessary of the relative redundance and cheapness of money between France and England, than that in France it will purchase more corn, more indigo, more coffee, more sugar, more of every exportable commodity than in England?

I may, indeed, be told that the Reviewer's supposition is not that coffee, sugar, indigo, ivory, &c. &c., are cheaper than money, but that these commodities and money are equally cheap in both countries, that is to say, that one hundred pounds sent in money, or invested in coffee, sugar, indigo, ivory, &c., &c., will be of equal value in France. If the value of all these commodities were so nicely poised, what would determine an exporter to send the one in preference to the other in exchange for corn, in relation to which they are all cheaper in England? If he sends money, and thereby destroys the natural level, we are told by the Reviewers that money would, on account of its increasing quantity in France and its decreasing quantity in England, become cheaper in France than in England, and would be re-imported in exchange for goods, till the level were restored. But, would not the same effects take place if coffee or any of the other commodities were exported, whilst they were equally valuable in relation to money in both countries? Would not the equilibrium between supply and demand be destroyed, and would not the diminished value of coffee, &c., in consequence of their increased quantity in France and their increased value in England, from their diminished quantity, produce their re-importation into England? Any of *these* commodities might be exported without producing much inconvenience from their enhanced price; whereas money, which circulates all other commodities, and the increase or diminution of which, even in a moderate proportion, raises or falls prices in an extravagant degree, could not be exported without the most serious consequences. Here, then, we see the defective principle of the Reviewers. On my system, however, there would be no difficulty in determining the mode in which, in a case so extremely improbable as that of an equal value in both countries for *all* commodities, money included, and corn alone excepted, the returns would be made so as to preserve the relative amount and the relative value of their respective currencies.

If the circulating medium of England consisted wholly of the precious metals, and were a fiftieth part of the value of the commodities which it circulated, the whole amount of money which would, under the circumstances supposed, be exported in exchange for corn, would be a fiftieth part of the value of such corn: for the rest we should export commodities, and thus would the proportion between money and commodities be equally preserved in both countries. England, in consequence of a bad harvest, would come under the case mentioned at page 263—of a country having been deprived of a part of its commodities, and therefore requiring a diminished amount of circulating medium. The currency, which was before equal to her payments, would now become superabundant, and relatively cheap, in the proportion of one fiftieth part of her diminished production; the exportation of this sum, therefore, would restore the value of her currency to the value of the currencies of other countries. Thus, it appears to be satisfactorily proved, that a bad harvest operates on the exchange in no other way than by causing the currency, which was before at its

just level, to become redundant, and thus is the principle that an unfavourable exchange may always be traced to a relatively redundant currency most fully exemplified.

If we can suppose that, after an unfavourable harvest, when England has occasion for an unusual importation of corn, another nation is possessed of a superabundance of that article, "*but has no wants for any commodity whatever*," it would unquestionably follow that such nation would not export its corn in exchange for commodities; but neither would it export corn for money, as that is a commodity which no nation ever wants absolutely, but relatively, as is expressly admitted by the Reviewers. The case is, however, impossible, because a nation possessed of every commodity necessary for the consumption and enjoyment of all its inhabitants who have wherewithal to purchase them, will not let the corn which it has over and above what it can consume, rot in its granaries. Whilst the desire of accumulation is not extinguished in the breast of man, he will be desirous to realise the excess of his productions, above his own consumption, into the form of capital. This he can only do by employing, himself, or by loans to others enabling them to employ an additional number of labourers, as it is by labour only that revenue is realised into capital. If his revenue be corn, he will be disposed to exchange it for fuel, meat, butter, cheese, and other commodities in which the wages of labour are usually expended, or, which is the same thing, he will sell his corn for money, pay the wages of his labourers in money, and thereby create a demand for those commodities which may be obtained from other countries in exchange for the superfluous corn. Thus will be reproduced to him articles more valuable, which he may again employ in the same manner, adding to his own riches, and augmenting the wealth and resources of his country.

No mistake can be greater than to suppose *that a nation can ever be without wants for commodities of some sort.* It may possess too much of one or more commodities for which it may not find a market at home. It may have more sugar, coffee, tallow, than it can either consume or dispose of, but no country ever possessed a general glut of all commodities. It is evidently impossible. If a country possesses every thing necessary for the maintenance and comfort of man, and these articles be divided in the proportions in which they are usually consumed, they are sure, however abundant, to find a market to take them off. It follows, therefore, that, whilst a country is in possession of a commodity for which there is no demand at home, it will be desirous of exchanging it for other commodities in the proportion in which they are consumed.

No nation grows corn, or any other commodity, with a view to realise its value in money (the case supposed, or involved in the case supposed, by the Reviewers), as this would be the most unprofitable object to which the labour of man could be devoted. Money is precisely that article which, till it is re-exchanged, never adds to the wealth of a country; accordingly we find, that to increase its amount is never the voluntary act of any country any more than it is that of any individual. Money is forced upon them only in consequence of the relatively less value which it possesses in those countries with which they have intercourse.

Whilst a country employs the precious metals for money, and has no mines of its own, it is a conceivable case that it may greatly augment the amount of the productions of its land and labour without adding to its wealth, because at the same time those countries which are in possession of the mines may possibly have obtained so enormous a supply of the precious metals as to have forced an increase of currency on the industrious country, equal in value to the whole of its increased productions. But by so doing the augmented currency, added to that which was before employed, will be of no more real value than the original amount of currency. Thus then will this industrious nation become tributary to those nations which are in possession of the mines, and will carry on a trade in which it gains nothing and loses every thing.

That the exchange is in a constant state of fluctuation with all countries I am not disposed to deny, but it does not generally vary to those limits at which remittances can be more advantageously made by means of bullion than by the purchase of bills. Whilst this is the case, it cannot be disputed that imports are balanced by exports. The varying demands of all countries may be supplied, and the exchanges of all deviate in some degree from par, if the currency of any one of them is either redundant or deficient, as compared with the rest. Suppose England to send goods to Holland, and not to find there any commodities which suit the English market; or, which is the same thing, suppose that we can purchase those commodities cheaper in France. In this case we confine our operation to the sale of goods in Holland, and the purchase of other goods in France. The currency of England is not disturbed by either transaction, as we shall pay France by a bill on Holland, and there will neither be an excess of imports nor of exports. The exchange may, however, be favourable to us with

Holland, and unfavourable with France; and will be so, if the account be not balanced by the importation into France of goods from Holland, or from some country indebted to Holland. If there be no such importation, it can arise only from a relative redundancy of the circulation of Holland, as compared with that of France, and in payment of the bill it will suit both those countries that bullion should be transmitted. If the balance be settled by the transmission of goods, the exchange between all the three countries will be at par. If, by bullion, the exchange between Holland and England will be as much above par as that between France and England will be below the par, and the difference will be equal to the expenses attending the passage of bullion from Holland to France. It will make no difference in the result, if every nation of the world were concerned in the transaction. England having bought goods from France and sold goods to Holland, France might have purchased to the same amount from Italy; Italy may have done the same from Russia, Russia from Germany, and Germany within 100,000*l.* of the same amount from Holland; Germany might require this amount of bullion either to supply a deficient currency, or for the fabrication of plate. All these various transactions would be settled by bills of exchange, with the exception of the 100,000*l.*, which would be either transmitted from an existing redundancy of coin or bullion in Holland, or it would be collected by Holland from the different currencies of Europe. It is not contended, as the Reviewers infer, "that a bad harvest, or the necessity of paying a subsidy in one country should be immediately and invariably accompanied by an unusual demand for muslins, hardware, and colonial produce," as the same effects would be produced if the country paying the subsidy, or suffering from a bad harvest, were to import less of other commodities than it had before been accustomed to do.

The Reviewers observe, page 345, "The same kind of error which we have here noticed pervades other parts of Mr Ricardo's pamphlet, particularly the opening of his subject. He seems to think that when once the precious metals have been divided among the different countries of the earth, according to their relative wealth and commerce, that each having an equal necessity for the quantity actually in use, no temptation would be offered for their importation or exportation, till either a new mine or a new bank was opened; or till some marked change had taken place in their relative prosperity." And afterwards, at page 361, "We have already adverted to the error (confined, however, principally to Mr Ricardo, and from which the Report is entirely free) of denying the existence of a balance of trade or of payments not connected with some original redundancy or deficiency of currency." "But there is *another point* in which almost all the writers on this side of the question concur, where, notwithstanding, we cannot agree with them, and feel more inclined to the mercantile view of the subject. Though they acknowledge that bullion occasionally passes from one country to another, from causes connected with the exchange, yet they represent these transactions as quite inconsiderable in degree. Mr Huskisson observes, 'that the operations in the trade of bullion originate almost entirely in the fresh supplies which are yearly poured in from the mines of the New World, and are chiefly confined to the distribution of those supplies through the different parts of Europe. If this supply were to cease altogether, the dealings in gold and silver, as objects of foreign trade, would be very few, and those of short duration.'"

"Mr Ricardo, in his reply to Mr Bosanquet, refers to this passage with particular approbation." Now, I am at a loss to discover in what this opinion of Mr Huskisson differs from that which I had before given, and on which the Reviewers had been commenting.

The passages are in substance precisely the same, and must stand or fall together. If "we acknowledge that bullion occasionally passes from one country to another from causes connected with the exchange," we do not acknowledge that it would so pass till the exchange had fallen to such limits as would make the exportation of bullion profitable; and I am of opinion that if it should so fall, it is in consequence of the cheapness and redundance of currency, which "would originate almost entirely in the fresh supplies which are yearly poured in from the mines of the New World." This, then, is not *another point* in which the Reviewers differ with me, but the same.

If "it is well known that most States, in their usual relations of commercial intercourse, have an almost constantly favourable exchange with some countries, and an almost constantly unfavourable one with the others," to what cause can it be ascribed but to that mentioned by Mr Huskisson? "The fresh supplies of bullion which are yearly poured in (and in nearly the same direction) from the mines of the New World." Dr A. Smith does not seem to have been sufficiently aware of the powerful and uniform effects which this stream of bullion had on the foreign exchanges, and he was

inclined much to overrate the uses of bullion in carrying on the various roundabout foreign trades which a country finds it necessary to engage in. In the early and rude transactions of commerce between nations, as in the early and rude transactions between individuals, there is little economy in the use of money and bullion; it is only in consequence of civilisation and refinement that paper is made to perform the same office between the commonwealth of nations, as it so advantageously performs between individuals of the same country. The Reviewers do not appear to me to be sufficiently aware of the extent to which the principle of economy in the use of the precious metals is extended between nations, indeed, they do not seem to acknowledge its force even when confined to a single nation, as from a passage in page 346, their readers would be induced to suppose their opinion to be, that there are frequent transfers of currency between the distant provinces of the same country; for they tell us that "there have been, and ever will be, a quantity of the precious metals in use destined to perform the same part with regard to the different nations connected with each other by commerce, which the currency of a particular country performs with regard to its distant provinces." Now, what part does the currency of a country perform with regard to the distant provinces?

I am well persuaded, that, in all the multiplicity of commercial transactions which take place between the distant provinces of this kingdom, the currency performs a very inferior part, imports being almost always balanced by exports,* and the proof is, that the local currency of the provinces (and they have no other) is seldom circulated at any considerable distance from the place where it is issued.

It appears to me that the Reviewers were induced to admit the erroneous doctrine of the merchants, *that money might be exported in exchange for commodities, although money were no cheaper in the exporting country,* because they could in no other way account for the rise of the exchange having, on some occasions, accompanied the increased amount of bank notes, as stated by Mr Pearse, the late deputy governor, and now governor of the Bank, in a paper delivered by him to the bullion committee. They say, "according to this view of the subject, it certainly is not easy to explain an improving exchange under an obviously increasing issue of notes: an event that not unfrequently happens, and was much insisted upon by the deputy governor of the Bank as a proof that our foreign exchanges had no connexion with the state of our currency."

These are circumstances, however, which are not absolutely irreconcileable. Mr Pearse, as well as the Edinburgh Reviewer, appears to have wholly mistaken the principle advanced by those who are desirous of the repeal of the restriction bill. They do not contend, as they are understood to do, that the increase of *bank notes* will permanently lower the exchange, but that such an effect will proceed from a redundant currency. It remains, therefore, to be considered whether an increase of bank notes is necessarily at all times accompanied with a permanently increased currency, as, if I can make it appear that it is not, there will be no difficulty in accounting for a rise in the exchange with an increased amount of bank notes.

It will be readily admitted, that, whilst there is any great portion of coin in circulation, every increase of bank notes, though it will for a short time lower the value of the whole currency, paper as well as gold, yet that such depression will not be permanent, because the redundant and cheap currency will lower the exchange, and will occasion the exportation of a portion of the coin, which will cease as soon as the remainder of the currency shall have regained its value and restored the exchange to par. The increase of small notes, then, will ultimately be a substitution of one currency for another, of a paper for a metallic currency, and will not operate in the same way as an actual and permanent increase of circulation.† We are not, however, without a criterion by which we may determine the relative amount of currency at different periods, as distinguished from bank notes, on which, though we cannot infallibly rely, it will probably be a sufficiently accurate test to determine the question which we are now discussing. This criterion is the amount of notes of 5*l.* and upwards in circulation, which, we may reasonably calculate, always bear some tolerably regular proportion to the whole circulation. Thus, if since 1797 the bank notes of this descrip-

* Part of the produce of the provinces is exported without any return, as it constitutes the revenue of absentees, but this consideration can have no effect on the question of currency.

† That an increase of bank notes under 5*l.* should be considered as a substitute for the coins exported, rather than an actual increase of circulation, is often and justly maintained by those who oppose the reasoning of the bullion report; but when these same gentlemen want to establish their favourite theory, that there is no connexion between the amount of the circulation and the rate of exchange, they do not forget to bring to their aid these small notes which they had before discarded.

tion have increased from 12 to 16 millions, we may infer that the whole circulation has increased one-third, if the districts in which bank notes circulate have neither been enlarged nor contracted. The notes under 5*l.* will be issued in proportion as the metallic currency is withdrawn from circulation, and will be further augmented if there be also an augmentation of notes of a higher denomination.

If I am correct in this view of the subject, that the increase in the amount of our currency is to be inferred from the increased amount of bank notes of 5*l.* and upwards, and can by no means be proved by an increase of 1*l.* and 2*l.* notes which have been substituted in the place of the exported or hoarded guineas, I must wholly reject the calculations of Mr Pearse, because they are made on the supposition that every increase of this description of notes is an increase of currency to that amount. When it is considered, that in 1797 there were no notes of 1*l.* and 2*l.* in circulation, but that their place was wholly filled with guineas; and that, since that period, there have been no less than 7 millions issued, partly to supply the place of our exported and hoarded guineas, and partly to keep up the proportion between the circulation for the larger and for the smaller payments, we shall observe to what errors such reasoning may lead. I can consider the paper in question of no authority whatever as opposed to the opinion which I have ventured to give, namely, that an unfavourable balance of trade, and a consequently low exchange, may in all cases be traced to a relatively redundant and cheap currency.* But if the reasoning of Mr Pearse were not incorrect as his *facts* are, he is no way warranted in the conclusions which he has drawn from them.

Mr Pearse states the increase of bank notes from January 1808 to Christmas 1809, to have been from 17½ to 18 millions, or 500,000*l.*, the exchange with Hamburgh during the same period having fallen from 34s. 9g. to 28s. 6g. an increase in the amount of notes of less than 3 per cent., and a fall in the exchange of more than 18 per cent.

But from whence did Mr Pearse obtain this information, of 18 millions of bank notes *only* being in circulation at Christmas in 1809? After looking at every return with which I have been able to meet, of the amount of bank notes in circulation at the end of 1809, I cannot but conclude that Mr Pearse's statement is incorrect. Mr Mushet in his tables gives four returns of bank notes in the year. In the last, for the year 1809, he has stated the amount of bank notes in circulation at . 19,742,998

| | |
|---|---|
| In the Appendix to the Bullion Report, and in returns lately made to the House of Commons, the amount of bank notes in circulation appears to have been on December 12, 1809, . . . . | 19,727,520 |
| On the 1st January 1810, . . . . . | 20,669,320 |
| On the 7th January 1810, . . . . . | 19,528,030 |

For many months previously to December it was not lower. When I first discovered this inaccuracy I thought Mr Pearse might have omitted the bank post bills in both estimates, although they did not in December 1809, exceed 880,880*l.*; but on looking at the return of bank notes in circulation, including bank post bills in January 1808, I find Mr Pearse has stated it larger than I can any where find it: indeed his estimate exceeds the return made by the Bank for the 1st of January 1808, by nearly 900,000*l.*, so that from the 1st of January 1808 to the 12th of December 1809, the increase was from 16,619,240 to 19,727,520, a difference of more than 3 millions, instead of 500,000, as stated by Mr Pearse, and of 2 millions if Mr Pearse's statement for any time in January 1808, be correct.

Mr Pearse's statement, too, that from January 1803 to the end of 1807, the amount of bank notes had increased from 16½ to 18 millions, an increase of a million and a half, appears to me to exceed the fact by half a million. The increase of notes of 5*l.* and upwards, including bank post bills, did not, during that period, exceed 150,000*l.* It is material that these errors should be pointed out, that those who may, in spite of what I have urged, agree in principle with Mr Pearse, may see that the facts of the case do not warrant the conclusions which that gentleman has drawn from them, and, indeed, that all calculations founded on the particular amount of bank notes for a day, or for a week, when the general average has been for some time before, or some time after, greater or less, will be of little avail in overturning a theory which has every other proof of its truth. Such I consider the theory which asserts that the unlimited multiplication of a currency which is referable to no fixed standard may and must

* It is not meant to be denied, that the sudden invasion of an enemy, or a convulsion in a country of any kind which renders the possession of property insecure, may form an exception to this rule, but the exchange will in general be unfavourable to a country thus circumstanced.

produce a permanent depression of the exchange, estimated with a country whose currency is founded on such standard.

Having considered the weight which ought to be attached to Mr Pearse's paper, I beg the reader's attention to the table which I have drawn out from the statements in the Bullion Report, and from the papers which have since been presented to the House of Commons. I request him to compare the amount of the circulation of the larger notes with the variations in the exchange, and I trust he will find no difficulty in reconciling the principle maintained by me with the actual facts of the case, particularly if he considers that the operations of an increased currency are not instantaneous, but require some interval of time to produce their full effect,—that a rise or fall in the price of silver, as compared with gold, alters the relative value of the currencies of England and Hamburgh, and therefore makes the currency of one or other relatively redundant and cheap;—that the same effect is produced, as I have already stated, by an abundant or deficient harvest, either in this country or in those countries with which we trade, or by any other addition or diminution to their real wealth, which by altering the relative proportion between commodities and money alters the value of the circulating medium. With these corrections, I have no fear but that it will be found that Mr Pearse's objections may be refuted without having recourse to the abandonment of a principle, which, if yielded, will establish the mercantile theory of exchange, and may be made to account for a drain of circulating medium, so great, that it can only be counteracted by locking up our money in the bank, and absolving the directors from the obligation of paying their notes in specie.

Mr Pearse's statement as presented to the Bullion Committee:*

| | Total of Bank notes. *Millions.* | | Rate of Hambro' Exchange. s. | d. |
|---|---|---|---|---|
| 27th February 1797, | 8½ | | 35 | 6 |
| Rose gradually in 1797 and 1798 to | 13 | | 38 | 0 |
| March 1799, | 13½ | | 37 | 7 |
| After this period, great commercial distress, large importation of corn, heavy subsidies, and the Hambro' Exchange continued falling, and on the 2d January 1801, was as low as | | | 29 | 8 |
| Between the end of the year 1799 to the end of 1802, an increased quantity of *1l.* and *2l.* notes were issued, swelling the sum total of *all* notes to | 13½ to 16½ | Fluctuation | from 33 3 to 29 8 | |
| From January 1803 to the end of 1807, | 16½ to 18 | Fluctuation | from 32 10 to 35 10 | |
| From January 1808 to Christmas 1809, | 17½ to 18 | Fall | from 34 9 to 28 6 | |

The rate of the Hambro' Exchange is taken from Lloyd's list.

The average amount of bank notes from the year 1797 to 1809 inclusive, in the following table, is copied from the Report of the Bullion Committee. The rates of exchange are extracted from a list presented by the Mint to parliament. There have been three returns made to parliament by the Bank of the amount of their notes in circulation in the year 1810;—the first for the 7th and 12th of each month; the second, a weekly return from the 19th January 1810 to 28th December; and the third also a weekly account from the 3d March to 29th December 1810. The average amount of notes above 5*l.*, including bank post bills, according to the first account, is

| | | Of notes under 5*l.* |
|---|---|---|
| | £15,706,226 | £6,560,674 |
| Second, | 16,192,110 | 6,758,895 |
| Third, | 16,358,230 | 6,614,721 |
| | 3)48,256,566 | 19,934,290 |
| General average, | 16,085,522 | 6,644,763 |

* I have omitted as much of Mr Pearse's paper as regarded the amount of bank notes in circulation before the restriction on bank payments, because whilst the public possessed the power of obtaining specie for their notes, the exchange could not but be momentarily lowered by the amount of the bank issues.

In the years marked thus * the value of silver as compared with gold exceeded the Mint valuation; this was the case particularly in the year 1801, when less than 14 oz. of silver could purchase an ounce of gold;—the Mint valuation is as 1 to 15.07; the present market value is as 1 to 16 nearly.

Average amount of Bank of England Notes in circulation in each of the following years:

| | Notes of 5*l.* and upwards, including Bank Post Bills. | Notes under 5*l.* | Total. | Highest rate of Exchange with Hamburgh. | Lowest rate of Exchange with Hamburgh. |
|---|---|---|---|---|---|
| 1798 | £11,527,250 | £1,807,502 | £13,334,752 | 38.2 Jan. | 37.4 Dec. |
| *1799 | 12,408,522 | 1,653,805 | 14,062,327 | 37.7 Jan. | 31.6 Oct. |
| *1800 | 13,598,666 | 2,243,266 | 15,841,932 | 32.5 May. | 31.- Feb. |
| *1801 | 13,454,367 | 2,715,182 | 16,169,594 | 31.8 Oct. | 29.8 Jan. |
| *1802 | 13,917,977 | 3,136,477 | 17,054,454 | 34.- Dec. | 32.- Feb. |
| 1803 | 12,983,477 | 3,864,045 | 16,847,522 | 35.- Dec. | 34.- Jan. |
| 1804 | 12,621,348 | 4,723,672 | 17,345,020 | 36.- June. | 34.8 Feb. |
| *1805 | 12,697,352 | 4,544,580 | 17,241,932 | 35.8 March. | 32.9 Nov. |
| *1806 | 12,844,170 | 4,291,230 | 17,135,400 | 34.8 Dec. | 33.3 Jan. |
| *1807 | 13,221,988 | 4,183,013 | 17,405,001 | 34.10 March. | 34.2 Sept. |
| *1808 | 13,402,160 | 4,132,420 | 17,534,580 | 35.3 July. | 32.4 Dec. |
| 1809 | 14,133,615 | 4,868,275 | 19,001,890 | 31.3 Jan. | 28.6 Nov. |
| 1810 | 16,085,522 | 6,644,763 | 22,730,285 | 31.2 June. | 28.6 Dec. |
| 1811 | | | | 26.6 Jan. | 24.- March. |

The Bank have made a return of the amount of their notes for eighteen days in this present year 1811. The average amount of notes of 5*l.* and upwards in circulation for those eighteen days, including bank post bills, is £16,286,950
And of those under 5*l.* - - - - - 7,253,575

Total - £23,547,525

"If," say the Reviewers, "considerable portions of the currency were taken from the idle, *and those who live upon fixed incomes*, and transferred to farmers, manufacturers, and merchants, the proportion between capital and revenue would be greatly altered to the advantage of capital; and in a short time the produce of the country would be greatly augmented." It is no doubt true "that it is not the *quantity*" of circulating medium which adds to the national wealth, "but the *different distribution* of it." If, therefore, we could be fully assured that the effects of the abundance, and the consequent depreciation of the currency, would diminish the powers of consumption in the idle and unproductive class, whilst it increased the number of the industrious and productive class, the effect would undoubtedly be to augment the national wealth, as it would realize into capital that which was before expended as revenue. But the question is, will it so operate? Will not a thousand pounds saved by the stockholder from his income and lent to the farmer, be equally productive as if it had been saved by the farmer himself? The Reviewers observe, "on every fresh issue of notes, not only is the quantity of the circulating medium increased, but the distribution of the whole mass is altered. A large proportion falls into the hands of those who consume and produce, and a smaller proportion into the hands of those who only consume." But is this necessarily so? They appear to take it for granted, that those who live on fixed incomes *must* consume the whole of their income, and that no part of it can be saved and annually added to capital. But this is very far from being the true state of the case; and I would ask, do not the stockholders give as great a stimulus to the growth of the national wealth by saving half their incomes and investing it in the stocks, thereby liberating a capital which will ultimately be employed by those who consume and produce, as would be done if their incomes were depreciated 50 per cent. by the issues of bank notes, and the power of saving were in consequence entirely taken from them, although the Bank should lend to an industrious man an amount of notes equal in value to the diminished income of the stockholder? The difference, and the only difference appears to me to be this, that in the one case the interest on the money lent would be paid to the real owner of the property; in the other, it would ultimately be paid in the shape of increased dividends or bonuses to the Bank proprietors who had

been enabled unjustly to possess themselves of it. If the creditor of the Bank employed his loan in less profitable speculations than the employer of the savings of the stockholders would have done, there would result a real loss to the country; so that a depreciation of currency may, as far as it is considered as a stimulus to production, be beneficial or otherwise.

I see no reason why it should diminish the idle and add to the productive class of society. At any rate the evil is certain. It must be accompanied with a degree of injustice to individuals which requires only to be understood to excite the censure and indignation of all those who are not wholly insensible to every honourable feeling.

With the sentiments of the remainder of the article I most cordially agree, and trust the efforts of the Reviewers will powerfully contribute to overturn the mass of error and prejudice which pervades the public mind on this most important subject.

It is often objected to the recommendation of the bullion committee, namely, that the Bank should be required to pay their notes in specie in two years, that, if adopted, the Bank would be exposed to considerable difficulty in providing themselves with the requisite amount of bullion for such purpose; and it cannot be denied, that, before the restriction bill can be repealed, the Bank would be in prudence bound to make ample provision for every demand which might by possibility be made on them. (It is observed by the bullion committee, that the average amount of bank notes in circulation, including bank post bills, in the year 1809, was 19 millions. During the same period the average price of gold was 4*l.* 10s.,—exceeding its Mint price by nearly 17 per cent., and proving a depreciation of the currency of nearly 15 per cent. A diminution, therefore, of 15 per cent. in the amount of the Bank circulation in 1809, should, on the principles of the committee, raise it to par, and reduce the market price of gold to 3*l.* 17s. 10½d.; and till such reduction take place, there would be imminent danger to the Bank as well as to the public that the restriction bill should cease to operate.) Now, admitting (which we are far from doing) the truth of your principles, say the advocates for the Bank; admitting that after such a reduction in the amount of bank notes, the value of the remainder would be so raised, that it would not be the interest of any person to demand specie at the Bank in exchange for notes, because no profit could be made by the exportation of bullion; what security would the Bank have that caprice or ill-will might not render the practice general of discontinuing the use of small notes altogether, and demanding guineas of the Bank in lieu of them? Not only, then, must the Bank reduce their circulation 15 per cent. on their issues of 19 millions,—not only must they provide bullion for 4 millions of 1*l.* and 2*l.* notes which would remain in circulation, but they must also furnish themselves with the means of meeting the demands which may be made on them to pay the small notes of all the country banks in the kingdom,—and all this within the short period of two years. It must be confessed, that, whether these apprehensions are likely or not likely to be realized, the Bank could not but make some provision for the worst that might happen; and though it is a situation in which their own indiscretion has involved them, it would be desirable, if possible, to protect them against the consequences of it.

If the same benefits to the public,—the same security against the depreciation of the currency, can be obtained by more gentle means, it is to be hoped that all parties who agree in principle will concur in the expediency of adopting them. Let the Bank of England be required by Parliament to pay (if demanded) all notes above 20*l.*, and no other, at their option, either in specie, in gold standard bars, or in foreign coin (allowance being made for the difference in its purity) at the English Mint value of gold bullion, viz. 3*l.* 17s. 10½d. per ounce, such payments to commence at the period recommended by the committee.

This privilege of paying their notes as above described might be extended to the Bank for three or four years after such payments commenced, and, if found advantageous, might be continued as a permanent measure. Under such a system the currency could never be depreciated below its standard price, as an ounce of gold and 3*l.* 17s. 10½d. would be uniformly of the same value. By such regulations we should effectually prevent the amount of small notes necessary for the smaller payments from being withdrawn from circulation, as no one who did not possess to the amount of 20*l.* at least of such small notes could exchange them at the Bank, and even then bullion, and not specie, could be obtained for them. Guineas might indeed be procured at the Mint for such bullion, but not till after the delay of some weeks or months, the loss of interest for which time would be considered as an actual expense, an expense which no one would incur whilst the small notes could purchase as much of every commodity as the guineas which they represented. Another advantage attending the

establishment of this plan, would be to prevent the useless labour which, under our system previously to 1797, was so unprofitably expended on the coinage of guineas, which, on every occasion of an unfavourable exchange (we will not inquire by what caused), were consigned to the melting pot, and, in spite of all prohibitions, exported as bullion. It is agreed by all parties that such prohibitions were ineffectual, and that whatever obstacles were opposed to the exportation of the coin, they were with facility evaded.

An unfavourable exchange can ultimately be corrected only by an exportation of goods,—by the transmission of bullion,—or *by a reduction in the amount of the paper circulation.)* The facility, therefore, with which bullion would be obtained at the Bank cannot be urged as an objection to this plan, because an equal degree of facility actually existed before 1797, and must exist under any system of Bank payments. Neither ought it to be urged, because it is now no longer questioned by all those who have given the subject of currency much of their consideration, that not only is the law against the exportation of bullion, whether in coin or in any other form, ineffectual, but that it is also impolitic and unjust; injurious to ourselves only, and advantageous to the rest of the world.

The plan here proposed appears to me to unite all the advantages of every system of banking which has been hitherto adopted in Europe. It is in some of its features similar to the banks of deposit of Amsterdam and Hamburgh. In those establishments bullion is always to be purchased from the Bank at a fixed invariable price. The same thing is proposed for the Bank of England; but in the foreign banks of deposit, they have actually in their coffers, as much bullion as there are credits for bank money in their books; accordingly, there is an inactive capital as great as the whole amount of the commercial circulation. In our Bank, however, there would be an amount of bank money, under the name of bank notes, as great as the demands of commerce could require, at the same time there would not be more inactive capital in the Bank coffers than that fund which the Bank should think it necessary to keep in bullion, to answer those demands which might occasionally be made on them. It should always be remembered, too, that the Bank would be enabled, by contracting their issues of paper, to diminish such demands at pleasure. In imitation of the Bank of Hamburgh, who purchase silver at a fixed price, it would be necessary for the Bank to fix a price *very little below* the Mint price, at which they would at all times purchase, with their notes, such gold bullion as might be offered to them.

The perfection of banking is to enable a country, by means of a paper currency, (always retaining its standard value,) to carry on its circulation with the least possible quantity of coin or bullion. This is what this plan would effect. And with a silver coinage, on just principles, we should possess the most economical and the most invariable currency in the world. The variations in the price of bullion, whatever demand there might be for it on the Continent, or whatever supply might be poured in from the mines in America, would be confined within the prices at which the Bank bought bullion, and the Mint price at which they sold it. The amount of the circulation would be adjusted to the wants of commerce with the greatest precision; and if the Bank were for a moment so indiscreet as to overcharge the circulation, the check which the public would possess would speedily admonish them of their error. As for the country Banks, they must, as now, pay their notes, when demanded, in Bank of England notes. This would be a sufficient security against the possibility of their being able too much to augment the paper circulation. There would be no temptation to melt the coin, and consequently the labour which has been so uselessly bestowed by one party in recoining what another party found it their interest to melt into bullion, would be effectually saved. The currency could neither be clipped nor deteriorated, and would possess a value as invariable as gold itself, the great object which the Dutch had in view, and which they most successfully accomplished by a system very like that which is here recommended.

# REPLY

TO

MR BOSANQUET'S

# PRACTICAL OBSERVATIONS

ON THE

# REPORT

OF

THE BULLION COMMITTEE.

LONDON.

1811.

# REPLY

TO

# MR BOSANQUET.

## CHAPTER I.

PRELIMINARY OBSERVATIONS — MR BOSANQUET'S OBJECTIONS TO THE CONCLUSIONS OF THE BULLION COMMITTEE BRIEFLY STATED.

The question concerning the depreciation of our currency has lately assumed peculiar interest, and has excited a degree of attention in the public mind, which promises the most happy results. To the Bullion Committee we are already most particularly indebted for a more just exposition of the true principles which should regulate the currency of nations, than has before appeared in any authoritative shape, in this or any other country. It could not, however, be expected that a reform, so important as that which the Committee recommend, could be effected without calling forth the warmest opposition, dictated by the erroneous principles of some, and by the interested views of others. Hitherto this opposition has been attended with the best effects; it has tended to prove more fully the correctness of the principles laid down by the Committee; it has called forth new champions in the field of argument; and discussion has daily produced new converts to the cause of truth. Of all the attacks on the report of the Committee, however, that of Mr Bosanquet has appeared to me the most formidable. He has not, as his predecessors have done, confined himself to declamation alone; and though he disclaims all reasoning and argument, he has brought forward, what he thought were irrefragable proofs of the discordance of the theory with former practice. It is these proofs which I propose to examine, and I am confident that it will be from a deficiency of ability in me, and not from any fault in the principles themselves, if I do not show that they are wholly unfounded. Mr Bosanquet commences, by availing himself of the vulgar charge, which has lately been so often countenanced, and in places too high, against theorists. He cautions the public

against listening to their speculations before they have submitted them to the test of fact; and he kindly undertakes to be their guide in the examination. If this country had hitherto carried on trade by barter, and it were, for the first time, going to establish a system by which the intervention of money should facilitate the operations of trade, there might be some foundation for calling the principles which might be offered to public attention wholly theoretical; because, however clearly dictated by the experience of the past, their practical effects would not have been witnessed. But, when the principles of a currency, long established, are well understood; when the laws which regulate the variations of the rate of exchange between countries have been known and observed for centuries, can that system be called wholly theoretical which appeals to those principles, and is willing to submit to the test of those laws?

To such an examination the report of the Committee is now submitted, and the public is called upon to believe that a theory which its adversary allows to be unassailable by reasoning and argument, is to be battered down by an appeal to facts. We are told, "that boldly as the principle is asserted, *and strongly as reason appears to sanction it*, that it is not generally true, and is at variance with fact." This is the test to which I have long wished to see this important question brought. I have long wished that those who refused their assent to principles which experience has appeared to sanction, would either state their own theory as to the cause of the present appearances in the state of our currency, or that they would point out those facts which they considered at variance with that which, from the firmest conviction, I have espoused.

To Mr Bosanquet, then, I feel considerably obliged. If, as I trust, I shall be able to obviate his objections; to prove them wholly untenable; to convince him that *his* statements are at variance with fact; that for his supposed proofs he is indebted to the wrong application of a principle, and not to any deficiency in the principle itself:—I shall confidently expect that he will abjure his errors, and become the foremost of our defenders.

Mr Bosanquet has thus stated the principal positions of the Committee, to which he is induced to object:

1st, "That the variations of the exchange with foreign countries can never, for any considerable time, exceed the expense of transporting and insuring the precious metals from one country to the other.

2d, "That the price of gold bullion can never exceed the Mint price, unless the currency in which it is paid is depreciated below the value of gold.

3d, "That, so far as any inference is to be drawn from Custom-house returns of exports and imports, the state of the exchanges ought to be peculiarly favourable.

4th, "That the Bank, during the restriction, possesses exclusively the power of limiting the circulation of bank notes.

5th, " That the circulation of country bank notes depends upon, and is proportionate to, the issues from the Bank.

Lastly, " That the paper currency is now excessive, and depreciated in comparison with gold, and that the high price of bullion and low rates of exchange are the consequences as well as the sign of such depreciation."

These principles being in all essential points the same as those which I have avowed, and on which Mr Bosanquet has attacked me, to avoid the necessity of speaking at one time of the opinion of the Bullion Committee, and at another of my own, I shall, in the future pages of this work, consider them as the principles of the Bullion Committee only, and shall take occasion to mention any shade of difference that may occur between theirs and mine.

## CHAPTER II.

### MR BOSANQUET'S ALLEGED FACTS, DRAWN FROM THE HISTORY OF THE STATE OF EXCHANGE, CONSIDERED.

---

### SECTION I.

Exchange with Hamburgh.

The first position controverted is, "That the variations of the exchange with foreign countries can never, for any length of time, exceed the expense of transmitting and insuring the precious metals from one country to the other."

Can this be called a theoretical opinion, now brought forward for the first time? Has it not been sanctioned by the writings of Hume and Smith? and has it not been undisputed even by practical men?

Mr ——, in his evidence before the Bullion Committee, observes, "that the extent to which the exchange can fall is the charge of transporting bullion, together with an adequate profit to the risk the transporting such specie is liable to."

Mr A. Goldsmid "never recollected the exchange to have differed more from par than 5 per cent. before the suspension of cash payments."

Mr Grenfell he stated, "that since he had been in business he recollected no period prior to the suspension of the cash payments by the Bank, when the exchange was considerably below par."

The same opinions were given by many practical men before the Lords' Committee in 1797.

But in opposition to all these opinions, Mr Bosanquet has facts which he boldly thinks will prove the unsoundness of the doctrine. "In the years 1764 to 1768," he observes, "prior to the recoinage, when the imperfect state of the coins occasioned gold to be 2 to 3 per cent. above the Mint price, the exchange with Paris was 8 to 9 per cent. against London,—at the same time the exchange with Hamburgh was, during the whole period, 2 to 6 per cent. in favour of London; here appears, then, a profit of 12 to 14 per cent. for the expense, in time of peace, of paying the debt to Paris with gold from Hamburgh, which must have exceeded the fact by at least

8 or 10 per cent.; and it is worthy of remark, that the average exchange with Hamburgh, for the years 1766 and 1767, of 5 per cent. in favour of London, added to the 2 per cent., the price of gold above the Mint price, constituted a premium of 7 per cent. on the importation of gold into England, or, deducting $1\frac{1}{2}$ per cent for expenses in time of peace, a net profit of 5 per cent., yet the exchange was not rectified thereby. Again, in 1775, 1776, and 1777, after the recoinage, we find the exchange on Paris 5, 6, 7, and 8 per cent. against London in time of peace, when half the amount would have conveyed gold to Paris, and one-fourth have paid the debts of Paris at Amsterdam.

"In the years 1781, 1782, and 1783, being years of war, the exchange was constantly from 7 to 9 per cent. in favour of Paris; and, during this period, gold was the common circulation of this country; and the Bank was compelled to provide it for the public at the Mint price. It has been already shown how little effect the precious metals produced towards equalising the exchange with Hamburgh during the years 1797 and 1798; and another instance may be adduced in the years 1804 and 1805, when the Paris exchange varied from 7 to 9 per cent. in favour of London.

"In every case here cited, the fluctuations of the exchanges greatly exceeded the expense of conveying gold from one country to the other, and to a much greater degree in most of them than in the present instance; the circumstances of the times were, it will readily be admitted, more favourable to intercourse on those occasions than they now are, and the state of metallic circulation afforded facilities not now experienced here. Yet, under all these disadvantages, the principle assumed by the Committee was not operative, and cannot therefore be admitted as a solid foundation for the superstructure of excess and depreciation attempted to be raised upon it."

If the facts had been as here stated by Mr Bosanquet, I should have found it difficult to reconcile them with my theory. That theory takes for granted, that whenever enormous profits can be made in any particular trade, a sufficient number of capitalists will be induced to engage in it, who will, by their competition, reduce the profits to the general rate of mercantile gains. It assumes that in the trade of exchange does this principle more especially operate, it not being confined to English merchants alone; but being perfectly understood, and profitably followed, by the exchange and bullion merchants of Holland, France, and Hamburgh; and competition in this trade being well known to be carried to its greatest height. Does Mr Bosanquet suppose that a theory which rests on so firm a basis of experience as this can be shaken by one or two solitary facts not perfectly known to us? Even should no explanation of them be attempted, they might safely be left to produce their natural effects on the public mind.

But before the reasoning of the Committee can be proved defec-

tive by Mr Bosanquet's facts, we must examine the source from whence those supposed facts are derived.

" Mr Bosanquet tells us that there is annexed to Mr Mushet's pamphlet a table, showing, 1st, The rate of exchange with Hamburgh and Paris for 50 years past, and how much it has been, in each instance, above or below par.

2d, " The price of gold in London, and a comparison of this price with the English standard or Mint price.

3d, " The amount of bank notes in circulation, and the rate of their assumed depreciation, by a comparison with the price of gold."

Now, the accuracy of these tables must be admitted or proved before the conclusions, which result from the inspection of them, can command assent; but so far from this being the case, their accuracy is disowned by Mr Mushet himself, who, in the second edition of his pamphlet, acknowledged the false principle upon which his first tables were calculated, and has given us a new and amended set.

The following notice accompanied the second edition of Mr Mushet's pamphlet:—" In the first edition of this work I stated the par of exchange with Hamburgh at 33 schillings and 8 grotes, and at that considered it as a fixed par; from the best information which I have been able to obtain upon 'Change since, 34.11¼ are considered as the par, and in the present edition I have stated it as such. *I have also corrected the mistake of considering the par to be fixed;* because gold being the standard of the money of England, and silver in Hamburgh, there can be no fixed par between those two countries; it will be subject to all the variations which take place in the relative value of gold and silver. For example, if 34 schillings 11 grotes and ¼ of Hamburgh currency be equal in value to a pound sterling, or $\frac{20}{21}$ of a guinea, when silver is 5s. 2d. per oz., they can no longer be so when silver falls to 5s. 1d. or 5s. per oz., because a pound sterling in gold being then worth more silver, is also worth more Hamburgh currency.

" To find the real par, therefore, we must ascertain what was the relative value of gold and silver when the par was fixed at 34.11¼, and what is the relative value at the time we wish to calculate it.

" For example, if the price of standard gold was 3*l.* 17s. 10½d. per oz., and silver 5s. 2d., an ounce of gold would then be worth 15.07 ounces of silver, being the Mint proportions; 20 of our standard shillings would then contain as much pure silver as 34 schillings 11 grotes and ¼; but if the ounce of gold was 3*l.* 17s. 10½d., and silver 5s. (which it was on the 2d January 1798) the ounce of gold would then be worth 15.57 ounces of silver. If 1*l.* sterling at par, therefore, be worth 15.07 ounces of silver, then at 15.57 it would be at 3 per cent. premium; and 3 per cent. premium on 34.11¼ is 1 schilling 1 grote and $\frac{9}{10}$, so that the par, when gold is to silver as 15.57 to 1, will be 36 schillings 1 grote and $\frac{1}{10}$.

"The above calculation will be more easily made by stating as follows:—

As 15.07 : 34.11¼ : : 15.57 : 36 1/10."

As it is universally admitted that gold is the standard measure of value in this country, and that silver performs the same office at Hamburgh, it is evident that no tables can be correct which assume a fixed invariable par. The true par must vary with every variation in the relative value of the two metals.

There are some objections, however, which I have yet to offer against the perfect accuracy of Mr Mushet's present tables.

In the first place, he has taken the par of silver against silver too low; he has calculated on the information which he had received, that 20 standard shillings in silver contained as much of that pure metal as thirty-four schillings and 11¼ grotes; but it appears by Dr Kelly's table (Bullion Rep. page 207,) that by actual assay, as well as by computation, 20 shillings are of equal value with 35 schillings and 1 grote. This difference amounts to little more than ⅜ per cent.; and I have only noticed it because I think it highly desirable that we should be able, at all times, to ascertain the true par.

Secondly, Mr Mushet has calculated the degree in which the exchange was above or below par by a reference to the prices which he has quoted from Lloyd's list. Now, invariably have those prices been for bills at 2½ usances, and as the par of exchange is computed from a comparison of the actual value of the coins of the two countries, payable at the same time in both, and not in one of them at the end of 2½ months, an allowance for interest must be made for this period, which will amount to about 1 per cent.*

A deduction of 1⅜ per cent. must therefore be made from the column for the favourable exchange to England in Mr Mushet's tables.

There are also, in all calculations on the true par of exchange, other sources of error, some of which will be presently noticed; so that it is not possible to ascertain with perfect accuracy, unless all those facts were before us, the actual difference which at any time existed between a remittance by bullion, and by the purchase of a bill.

To Mr Mushet's amended tables, thus corrected, I am willing to submit the truth of the principle now disputed. It will then appear, that at no period since 1760 has the exchange with Hamburgh been more in favour of England than 7 per cent., with one exception only; and the reader will not be surprised that there should have been such an exception, when he learns that it was in the memor-

* By Mr ——'s evidence to the Bullion Committee (Appendix, page 74,) it appears that the course of exchange from Hamburgh to London in ordinary times differs 1 Flemish schilling from the course of London to Hamburgh, to compensate the 2½ usances and commission allowed on bills both ways; when the difficulties of communication existed to the greatest extent, the difference of exchange was full 2s. Flemish.

able year of 1797, just after the suspension of cash payments at the Bank. At this period the currency of this country was reduced particularly low; the amount of bank notes in circulation being less than it had been for ten years preceding. That, under such circumstances, the exchange should have become favourable to England, and, consequently, that there should have been large importations of bullion, is entirely conformable with the principle of the Bullion Committee, and confirms the efficacy of the remedy which they have proposed. A great circulation of paper and a too abundant currency, are stated by them to be the causes of the present nominally low exchange, and they confidently predict, that a reduction of its quantity will, as in the year 1797, raise the exchange, and by that means render the importation of bullion profitable. That this favourable exchange did, in the year 1797, produce an immense importation of gold can, by indirect evidence, be amply proved. The amount of foreign gold coined in his Majesty's Mint was,

| | | | | | |
|---|---|---|---|---|---|
| In the year 1795 | in value | L.255,721 | 11 | 8 |
| 1796 | . . | 72,179 | 14 | 11 |
| 1797 | . . | 2,486,410 | 6 | 0 |
| 1798 | . . | 2,718,425 | 9 | 0 |
| 1799 | . . | 271,846 | 12 | 8 |

But, it will be asked, how do those who contend that the exchanges of a country cannot, for any length of time, be either highly favourable, or highly unfavourable, account for the exchange with Hamburgh being permanently in favour of England for two or three years?

This was the case, Mr Bosanquet observes, during the years 1797 and 1798, and he affirms that the precious metals produced little effect in equalising the exchange. It appears by Mr Mushet's amended tables (always corrected by the $1\frac{3}{8}$ per cent.) that, during those years, the exchange was favourable to England, and fluctuated from 5.6 to 4.3 per cent. But the principle I understand to be this, that no country can, for any length of time, have the exchange highly favourable or highly unfavourable, because it supposes either such an increase on the one hand in her stock of money and bullion, or on the other such a diminution in that stock, as would destroy that equilibrium in the value of the currencies of countries which they naturally have a tendency to find.

The assertion is true when applied to the exchanges, in general, of any country, but is false if the rate of her exchange with one country only be considered. It is possible that her exchange with one particular country may be permanently unfavourable, in consequence of a continued demand for bullion; but this by no means proves that her stock of coin and bullion is decreasing, unless her exchange should be also unfavourable with other countries. She may be importing from the north the bullion which she is exporting to the south,—she may be collecting it from countries where it is

relatively abundant, for countries where it is relatively scarce, or where, from some particular causes, it is in particular demand; but it by no means follows, as an undeniable consequence, that her own stock of money shall be reduced below its natural level. Spain, for example, who is the great importer of bullion from America, can never have an unfavourable exchange with her colonies; and as she must distribute the bullion she receives amongst the different nations of the world, she can seldom have a favourable exchange with the countries with which she trades.*

Applying, then, these principles to the state of our exchange with Hamburgh in 1797 and 1798, we shall observe, that it was not in consequence of what is usually termed a balance of trade that the exchange was permanently favourable to England; it was not because Hamburgh had contracted a debt to us for the balance of commodities which she had imported, that she was necessitated to pay us in gold and silver bullion, but because she could advantageously export bullion in the same way as any other commodity, in consequence of an unusual demand for that article in England. This demand proceeded from two causes: First, from the unusually low amount of our currency; secondly, from the exportation of silver to Asia by the East India Company.

In consequence of the first of these causes, and of the immense amount of guineas which at that period had been withdrawn from circulation for the purpose of hoarding, by timid people, we have already seen that the foreign gold coined into guineas during those years, amounted to no less a sum than 5,200,000*l.* Here, then, was a demand for gold unprecedented in the history of the Mint, and of itself abundantly sufficient to account both for the high exchange, and the length of time which it continued. It is a practical illustration of the truth of a most satisfactory theory.

To this, however, must be added, the demand for silver bullion in consequence of the exportation of the East India Company. It appears, by the account delivered to the Bullion Committee (No. 9), that the whole amount of foreign silver coin, exported by the Company on their own account, as well as on account of private persons, amounted

| | | |
|---|---|---|
| In the year 1795 | to | 151,795 ounces. |
| 1796 | to | 290,777 |
| 1797 | to | 962,880 |
| 1798 | to | 3,565,691 |
| 1799 | to | 7,287,327 |

From this time the exportation of silver to the East Indies was considerably reduced, and has now almost wholly ceased. Thus, then, it appears that a high exchange was followed by an unusually

* Mr Huskisson has commented with great ability upon the few transactions—few comparatively—which take place in bullion, and has observed, that those transactions are principally confined to the distribution of the produces of the mines to the different countries where gold and silver are in use.

great importation of bullion, and that, when that demand ceased, the exchange regained its natural level. On a further inspection of the table, it will appear, that in proportion as the amount of bank notes increased, the exchange became depressed, and was in 1801 more than 11 per cent. against England; and at the same time the price of gold bullion rose to 4*l.* 6s.—more than 10 per cent. above the Mint price.*

It must be confessed, that from September 1766 to September 1767, the exchange continued permanently in favour of England from 7.4 to 6.8 per cent.; and from that period to September 1768, it continued generally favourable above 3 per cent.; but what circumstances in the situation of Europe might then have made it profitable for England to become the agent in collecting bullion from Hamburgh for some other country, it is not now material to inquire. Of this I am fully assured, that, if all the circumstances were fairly before us, it might be satisfactorily explained.

But whether explained or not explained, it proves nothing in favour of Mr Bosanquet's theory (for theory Mr Bosanquet has just as much as the Committee): it only proves that the precious metals might continue to be imported from one quarter while they were exported to another; which the theory of the Committee not only allows, but requires. To prove anything in favour of Mr Bosanquet's theory, it must be proved that the precious metals came in permanently in greater proportion than they went out; not from one place only, but from all places taken together.

The following considerations go a certain way in accounting for the phenomena which have misled Mr Bosanquet: the tables of Mr Mushet are calculated on a comparison of the relative value of silver with bar gold. Now, bar gold is generally 2s. or 3s. per ounce worse in price than gold in coin; and, therefore, if the gold imported be intended for re-exportation, the true par will differ from 2 to 3 per cent., according as the calculation is made by reference to coined or to bar gold.†

* Lord King satisfactorily accounted for the long duration of an exchange favourable to this country with Hamburgh, from the circumstance of the demands of the India Company for silver bullion for their settlements in the East. Mr Blake comments, in his late publication, upon what he calls "the erroneous opinions" entertained by Lord King on this subject, and observes, "that the exportation of bullion is affected like that of any other commodity, when there is such a difference in its real prices, at any two places, as will afford a profit on its transit; an occurrence that will frequently take place with an exchange at par." An occurrence, I should say, which can never take place with an exchange at par. Who would send bullion from Hamburgh to London at an expense of 4 or 5 per cent., whilst the exchange was at par, when by means of a bill he could obtain the same amount of bullion in London free from all charges?

I am happy that an opinion similar to that which I have expressed is also entertained by Mr Bosanquet, page 12:—"In the event of an unfavourable balance of payments, the depression of the exchange must necessarily attain this limit (the expenses of conveying and insuring the precious metals from one country to the other) before the balance can be adjusted by the exportation of gold."

† Mr Mushet's calculations take for granted, that the relative value of gold and silver was the same in both countries, and that the gold and silver were of the same

When money is wanted for our own circulation, I do not object to the calculation of the true par of exchange being made, on a comparison of the relative value of the silver of the foreign country with the value of standard gold bars in this; but in that case there must be added to the amount of expenses attending the transportation of the silver, the interest which the purchaser of gold will lose, during the detention of the gold in the Mint whilst coining into money. The natural destination of a great part of all the bar gold is to some of the Mints of Europe, as it is in the state of coin only that gold can be made productive of interest to the owner. In comparing, therefore, the value of the currency of one country with the value of bullion in another, we must not leave out of our consideration the trifling superior value which coin bears above bullion in the importing country. Thus, if a merchant in Hamburgh were indebted 1*l.* sterling to a merchant in England, and should export to England as much silver as would purchase the quantity of gold contained in 1*l.*, he would not be able to discharge his debt till the gold were manufactured into coin. In addition, then, to his other expenses, the interest which he would have to pay to his creditor till the coin was returned to him, would enter into his calculation at the time that he was making a comparison of the advantages which would attend either the purchase of a bill, or the remittance of bullion.

This loss of interest the Bullion Committee have estimated at 1 per cent.

If these principles are correct, there must be deducted from the favourable Hamburgh exchanges of Mr Mushet's tables 1 per cent. more than we have already stated, when the bullion is wanted for our own coin, and from 2 to 3 per cent. when it is required for re-exportation. It is also necessary to observe, that the relative value of gold to silver is constantly varying in all countries, though always tending in all to an equality of value; and that the test of our currency being depreciated, is more certainly proved by the high market price of bullion than by the low exchanges.*

description, viz. in bars. But it is chiefly by the value of gold in coin that a foreigner determines whether he shall export gold to this country, or make a remittance by bill; and the price of gold in coin in England must necessarily enter into his calculation. On a reference to the Appendix of the Bullion Report, No. 6, it will appear that the transactions in gold with the Continent are mostly confined to gold in coin. For fifteen months, ending in March 1810, the whole amount of sales of bar gold, by private dealers, transacted through the Bullion Office at the Bank, did not exceed in value 60,867*l.*, whilst the sales of gold in coin during the same period amounted to 683,067*l.*

* I have read in a small French tract, "Sur l'Institution des Principales Banques de l'Europe," that on one occasion the Bank of Hamburgh was obliged to suspend its payments, in consequence of having made too great advances on gold bullion. I have in vain endeavoured to find out in what year this occurred. It is evident that a circumstance of this sort must have had some influence on the exchange,—and it is not impossible that it might have happened in the years 1766, 1767.

## SECTION II.

### Exchange with Paris.

Having thus examined the objections made by Mr Bosanquet to the conclusions of the Committee, as far as the exchanges with Hamburgh are concerned, I shall now proceed to consider the circumstances which appear to him to be at variance with the principle I am defending, in the account of the exchanges between this country and Paris.

In the consideration of the par of exchange with Hamburgh, the principle on which it is calculated is easy and simple; not so that with Paris. The difficulty proceeds from this: that France as well as England has two metals, gold and silver, in circulation, both of which are legal tender in all payments.

In my former publication I endeavoured to explain the principles which appeared to me to fix the standard measure of value in a country where silver and gold are both in circulation, and both a legal tender.

Lord Liverpool supposed, that when gold became the standard measure of value in this country, it arose from some capricious preference of the people to gold; but it can, I think, be clearly proved that it was caused entirely from the circumstance of the market value of silver relatively to gold having become greater than the Mint proportions. This principle is not only most fully admitted, but also most ably illustrated by his lordship.

The Mint will coin an ounce of gold into 3*l.* 17s. 10½d. of gold money, and they will also coin 15.07 ounces of silver into the same amount of silver money. What is it, then, that determines the Bank or any individual to carry an ounce of gold in preference to 15.07 ounces of silver to the Mint to be coined, as they are both by law equally useful to discharge a debt to the amount of 3*l.* 17s. 10½d.? No other consideration but their interest. If 15.07 ounces of silver can be purchased for less than an ounce of gold, silver will be coined; and if an ounce of gold can be procured for less than 15.07 ounces of silver, gold will be taken to the Mint for that purpose.

In the first case silver will become the measure of value; in the second, gold.

Now, as the relative market value of these metals is subject to constant variation, gold or silver may alternately become the standard measure of value. Since the recoinage of silver, in the reign of King William, gold has almost uniformly been of less value than 15.07 ounces of silver, and consequently gold has, since that period, been the standard of value in this country. In the year 1798, the coinage of silver was altogether prohibited by law. Whilst that law remains in force gold must necessarily be the standard measure,

whatever may be the variations in the relative value of the two metals.*

Whichever metal is the standard measure of value, it will also regulate the par of exchange with foreign countries, because it will be in that metal, or in paper currency representing that metal, that bills will be paid.

In France there are also two metals in circulation, and both legal tender to any amount. The relative value of gold to silver in the coins of France, previously to the Revolution, was as 15 to 1 (Bullion Report, No. 59), and is now $15\frac{1}{2}$ to 1; but we are informed by a letter of Mr Grefulhe to the Bullion Committee (No. 56), that in 1785, an alteration had been made in the number of louis which were coined from a mare of gold, that number having been increased from 30 to 32. Previously to 1785, therefore, gold must have been valued in the French Mint somewhere about 14 to 1. For the same reasons that the standard of value was subject to change from gold to silver, and from silver to gold, in England, it would also be subject to do so in France. When the relative value of gold to silver was under 14 to 1, gold would have become the standard measure of value in France, and, consequently, the rate of exchange with England would have been estimated by a comparison of the gold coins of the two countries. When above 14, and under 15.07 to 1, gold would have been the standard in England, and silver in France, and the exchange rated accordingly. The par would then have been fixed by a comparison of the gold of England with the silver of France. And when the relative value was above 15.07 to 1, silver would have been the standard in both countries. The exchange would then have been rated in silver. But after 1785, when the Mint valuation of the metals was altered in France, and became nearly the same as that of England, the par of exchange would have been reckoned either in gold or in silver in both countries.

I have already observed that, to compare the amount of deviation of the exchange from par with the expenses of transmitting the precious metals from one country to the other, is not sufficient to prove that such trade would be profitable, we must also consider what the price of bullion is in the country to which it is transmitted, or the amount of expense which would be incurred in procuring the bullion to be coined into money. In this country no seignorage is charged. If an ounce of gold or silver is carried to the Mint, an ounce of coined money is returned. The only in-

* The Bullion Committee, as well as Mr Huskisson, consider gold as the standard measure of value, in consequence of the 39th of the King, which declares that silver shall not be a legal tender for sums exceeding 25*l.*, except by weight, at the rate of 5*s.* 2*d.* per ounce. But this law would not have prevented the coinage of silver when under its Mint price, and, therefore, under its Mint relative value to gold. In 1798, for example, when the price of silver was 5*s.* per ounce, and the relative market value of silver to gold as 1 to 15.57, and when therefore silver could be profitably coined, the new silver fresh from the Mint would have been a legal tender to any amount.

convenience, therefore, that an importer of bullion can experience in receiving bullion from abroad, instead of the money of England, is the delay during its detention at the Mint, and which the Bullion Committee have valued at 1 per cent. One per cent. appears, therefore, to be the natural value of English coin above bullion, provided the coin be not debased, and the currency be not excessive. But in France the seignorage, according to Dr Smith, amounted to no less than 8 per cent., besides the loss of interest during its detention at the Mint. And we have his authority, too, that no sensible inconvenience resulted from it.* An ounce of gold or silver coin was in France, therefore, of more value by 8 per cent. than an ounce of gold or silver bullion. It results from these facts that no bullion could have been imported into France, unless there was not only a profit equal to the expenses attending its importation, but a further profit of 8 per cent., the par of exchange being calculated not on the value which the coin actually passed for in currency, but on its intrinsic value as bullion.†

To make this appear more evident, let us suppose that the exchange with London was, as Mr Bosanquet informs us, 8 per cent. in favour of France, in the year 1767, and that at the same time it was 6 per cent. in favour of London with Hamburgh, and that the expenses of sending gold from Hamburgh to Paris were no more than $1\frac{1}{2}$ per cent. Will it not be cheaper, he asks, by $12\frac{1}{2}$ per cent. to pay the debt at Paris, by sending the gold from Hamburgh,‡ than by remitting a bill? I answer, No; because, when the gold arrives at Paris, it must either be coined into money, or sold as bullion. If it be coined into money, 8 per cent. must be paid to the Mint; if it be sold as bullion, it will sell at 8 per cent. under the Mint price.§ The profit, then, if all the other calculations be

* Since writing the above, I have seen an extract from a Moniteur of the year 1803, by which it appears that the seignorage in France was

| | | |
|---|---|---|
| In 1726 on gold | $7\frac{6}{16}$ per cent. on silver | $7\frac{4}{11}$ |
| 1729 . | $5\frac{3}{16}$ . . . | $5\frac{7}{16}$ |
| 1755 . | $4\frac{1}{16}$ . . . | $3\frac{10}{11}$ |
| 1771 . | $1\frac{4}{7}$ . . . | $2\frac{7}{9}$ |
| 1785 . | $2\frac{9}{17}$ . . . | — |

And was fixed in 1803 at $\frac{1}{3}$ per cent. for gold, and $1\frac{1}{2}$ for silver.

† It is only whilst the currency of France was kept at its proper level that the price of gold could continue 8 per cent. under the Mint price, in the same manner as the price of gold would and did continue under the Mint price of England. The currency of England was rather above its level when gold was 3*l.* 17*s.* 6*d.*, as 4*d.* an ounce is not sufficient compensation for the delay of the Mint. It follows, therefore, that the principle here contended for can only have its full force whilst the currency is not excessive.

‡ As silver is the currency of Hamburgh, it would be silver, and not gold, which an English creditor would be entitled to send from Hamburgh to Paris.

§ "In France, a duty of 8 per cent. is deducted for the coinage, which not only defrays the expense of it, but affords a small revenue to the Government. In England, as the coinage costs nothing, the current coin can never be much more valuable than the quantity of bullion which it actually contains. In France, the workmanship, as you pay for it, adds to the value, in the same manner as to that of wrought plate. A sum of French money, therefore, containing a certain weight of pure silver, is more valuable than a sum of English money containing an equal weight of pure silver, and must

correct, will be reduced from $12\frac{1}{2}$ to $4\frac{1}{2}$ per cent. But they are not correct, being subject to further deductions from the causes already stated.

Keeping these principles in view, it will, I believe, appear, that the exchange with Paris was in favour of England during a great portion of the four years, from 1764 to 1768, and at all the other periods mentioned by Mr Bosanquet.

I cannot help here observing, that it must excite astonishment, that a British merchant should seriously believe it possible, that, in time of peace, a net profit, after paying all expenses, of from $10\frac{1}{2}$ to $12\frac{1}{2}$ per cent. should have been made by the exportation of gold from Hamburgh to Paris during four years:—a profit, which, from the quick returns, would have enabled any person engaging in such undertakings to have cleared more than 100 per cent. per annum on the capital employed; and that too in a trade, the slightest fluctuations of which are watched by a class of men proverbial for their shrewdness, and in which competition is carried to the greatest extent. For any man to compare the account of the Hamburgh exchange, and of the Parisian, and not to see that the accounts were incorrect, that the facts could not be as so stated, is very like a man who is all for fact and nothing for theory. Such men can hardly ever sift their facts. They are credulous, and necessarily so, because they have no standard of reference. Those two sets of supposed facts, those in the Hamburgh exchange on the one hand, and those in the Parisian on the other, are absolutely inconsistent, and disprove one another. That facts such as these should be brought forward to invalidate a theory, the reasonableness of which is allowed, is a melancholy proof of the power of prejudice over very enlightened minds.

---

## SECTION III.

Supposed Fact of a Premium on English Currency in America—Favourable Exchange with Sweden.

The next point on which I wish to make a few observations, is that first mentioned by Mr Grefulhe, and now brought forward by Mr Bosanquet. I allude to the premium which it is asserted was

require more bullion, or other commodities, to purchase it. Though the current coin of the two countries, therefore, were equally near the standards of their respective Mints, a sum of English money could not well purchase a sum of French money, containing an equal number of ounces of pure silver, nor, consequently, a bill upon France for such a sum. If, for such a bill, no more additional money was paid than what was sufficient to compensate the expense of French coinage, the real exchange might be at par between the two countries, their debts and credits might mutually compensate one another, while the computed exchange was considerably in favour of France. If less than this was paid, the real exchange might be in favour of England, while the computed was in favour of France."—*Wealth of Nations*, Chap. iii. Book iv

given in America, in hard dollars, for the depreciated currency of England. I have examined this fact with the greatest attention, and to me it appears evident; first, that the price which was called a premium of 9 per cent. given for a bill upon England, *was really a discount* of $3\frac{1}{4}$ per cent.; and, secondly, that at that price it was a cheaper remittance than if the dollars with which the bill was bought had been exported.

The par of exchange with America is reckoned in dollars; the par is called 4s. 6d. sterling for a dollar, consequently 444.4 dollars ought to contain as much pure silver as 100*l.* sterling. But this is not the fact. An American dollar, according to the Mint regulation of America, ought to weigh 17 dwt. 8 grains, and is $8\frac{1}{2}$ grains worse than English standard silver; consequently, the value of an American dollar in our standard silver is 4s. $3\frac{3}{4}$d. According to this value, 463.7 dollars is the true par for 100*l.* of our English silver currency; but we are comparing the dollars of America with the pound sterling of England, which is gold; therefore, the true par for 100*l.* sterling at the relative value of dollars and gold in May 1809, the period alluded to, was 500 dollars. Now, for a bill of 100*l.* on London, bought with dollars in America at the highest exchange that year, viz. 109, no more was paid than 484 dollars; it was therefore purchased at $3\frac{1}{4}$ per cent. under the real par.*

It should be recollected that the embargo laws were at that time most strictly enforced; that captains of packets were obliged, before they were permitted to proceed on their voyage, to swear that they had no specie on board; and, on one occasion, one of these captains was obliged to re-land the specie which he had smuggled on board his vessel. At the same time, the rate of insurance was immoderately high, and a premium of 8 per cent. was paid on a few ships which broke the embargo, the underwriters being guaranteed, too, from the loss which would have attended their seizure by the American Government. Now, 8 per cent. insurance, besides commission, freight, and other expenses, together with $3\frac{1}{4}$ per cent., the actual discount of the bill bought, would, perhaps, not be much under the discount which then existed on our paper currency; so that our depreciated paper was not bought at a premium for hard dollars, but was bought at a discount, and at its actual value.

But we are told the exchange with Sweden is favourable to England, and that the currency of Sweden is regulated in a manner precisely similar to ours, the Bank not issuing specie whenever the exchange becomes unfavourable. There is no doubt a perfect agreement in the two cases, and for that reason they are followed by similar effects, and the depreciation of both currencies requires

* The weight of the American dollar in circulation is not more, according to Mr Williams's evidence, than 17 dwt. 6 gr., which would make the true par somewhat lower than 4s. $3\frac{1}{2}$d.; and, according to Ede's book of Coins, the American dollar is 11 grains worse than standard, and contains no more pure silver than 4s. $2\frac{1}{4}$d. of English standard silver coin.

the same remedy. This remedy is a diminution in the amount of the circulating medium, either by the exportation of the coins, or by a reduction of bank paper. If the exchange with Sweden is, as stated, 24 per cent. in favour of London, it proves only that the excess of paper currency not convertible into specie is, in Sweden, proportionably greater than in England.*

---

## SECTION IV.

A Statement concerning the Par of Exchange, by the Bullion Committee, examined.

HAVING now considered every fact, or supposed fact, advanced by Mr Bosanquet, on the subject of the exchange, with a view to prove that the principle which the Committee have avowed,—namely, that the variations in the exchange with foreign countries can never exceed for any length of time the expense of transporting and insuring the precious metals; having proved the conclusion to which the writer would lead us to be unsupported by his facts, of which not one is, as I think, at variance with the principle of the Committee, I must beg leave to point out an error in the Report itself, an error on which Mr Bosanquet founds his opinion, that all remedy may safely be delayed.

"Thus, then," says Mr Bosanquet, "it appears that, on a full admission of all the principles adopted by the Committee, and of their application to the present case, the foreign exchanges were, at the time when the Report was presented, and for three months prior thereto, about 2 per cent. below the natural limit of depression."

"It will probably be thought that the question, as a practical question of national importance, is altogether at rest;—that there is no necessity, at least, for the adoption of hasty remedies, even though the correctness of the general reasoning of the Committee should, on full inquiry, be conceded."

When the exchange is admitted to be exceedingly depressed, we are told that to oblige the Bank to pay in specie would be attended with the most dangerous consequences; that we must wait till the exchange becomes more favourable; and when it is supposed to have risen within 2 per cent. of its natural limit, then we are again desired to pause, because it is no longer a question of national importance. By this mode of reasoning, a motive may be found for refusing *ad infinitum* to renew the payments of the Bank. I

* Before, however, it can be admitted that the exchange with Sweden is 24 per cent. in favour of London, we must be informed whether both gold and silver be legal tender in Sweden, and, if so, at what relative value those metals are rated in the Swedish Mint. I suspect that a part of this favourable exchange may be accounted for by the rise in the relative value of gold to silver.

confidently hope that no such fallacious reasoning will be listened to; that we shall at last open our eyes to the dangers that beset us; that we shall examine coolly, and decide manfully.

The principle upon which Mr Mushet's amended tables are constructed, has been most fully admitted, and most correctly and concisely stated in the Report (page 10.)

"If one country uses gold for its principal measure of value, and another uses silver, the par between those countries cannot be estimated for any particular period, without taking into account the relative value of gold and silver at that particular period."

The Committee have, moreover, in their endeavours to find out the real par between this country and Hamburgh, kept this principle constantly in view, as will appear from the questions put to Mr —— (Report, page 73). Mr —— also fully admitted the principle; and yet, when he was requested to "state in what manner he applied those general ideas to the statement of the par of exchange, as between England and Hamburgh," he answered, "taking gold at the coinage price of 3*l.* 17s. $10\frac{1}{2}$d., and taking it at Hamburgh at what we call its par, which is 96 stivers banco for a ducat, and further reducing 55 ounces of standard gold as being equal to 459 ducats, it produces a par of exchange of 34s. $3\frac{1}{2}$g. Flemish for a pound sterling: a ducat contains at the rate of $23\frac{1}{2}$ carats fine."

Now, here is not one word said about the relative value of gold to silver in the market; and the only information which is obtained from this answer is, that 34s. $3\frac{1}{2}$g. Flemish, in gold coin, is equal to a pound sterling of gold; and this calculation agrees within $\frac{1}{2}$ grote with that of Dr Kelly (Rep. No. 59). If the purchaser of a bill in London for 34s. 3g. could obtain at Hamburgh 34s. 3g. in gold currency, that might truly be called the par, but he can only obtain 34s. 3g. in silver, which is not worth, by 8 per cent., as much as 34s. 3g. in gold coin. The question proposed by the Committee was, in effect, What amount of Hamburgh currency contains the same quantity of pure silver as can be purchased by a pound sterling in gold?

At the period when the Report was made, the answer would have been 37s. 3g. Flemish; 37s. 3g. therefore was then the true par of exchange. If the Committee had calculated according to this par, instead of 34s. 3g., they would not have reported that the exchange with Hamburgh was not more unfavourable to England than 9 per cent., but nearly 17 per cent.; and Mr Bosanquet would not have had an opportunity for observing, that, admitting the reasoning of the Committee, the evil was not of sufficient magnitude to make any immediate interference necessary.

## CHAPTER III.

MR BOSANQUET'S ALLEGED FACTS, IN SUPPOSED REFUTATION OF THE CONCLUSION THAT A RISE IN THE MARKET PRICE OF BULLION ABOVE THE MINT PRICE PROVES A DEPRECIATION OF THE CURRENCY, CONSIDERED.

### SECTION I.

That the Negation of the above Conclusion implies the Impossibility of melting or exporting English Coin—an Impossibility contended for by nobody.

THE next proposition of the Committee, the justness of which Mr Bosanquet disputes, he has thus stated:—"That the price of gold bullion can never exceed the Mint price, unless the currency in which it is paid is depreciated below the value of gold." But this is not exactly the principle of the Committee. Their principle, when fairly stated, is, not that gold as a commodity may not rise above its value as coin, but that it cannot continue so, because the convertibility of coin into bullion would soon equalize their value. The words of the Committee are these,—"Your Committee are of opinion that, in the sound and natural state of the British currency, the foundation of which is gold, no increased demand for gold from other parts of the world, however great, or from whatever causes arising, can have the effect of producing here, *for a considerable period of time*, a material rise in the market price of gold." Nothing appears to me to be wanting to make this a self-evident proposition but the admission, that the law, which forbids the conversion of gold coin into gold bullion, cannot be successfully executed.

I should have expected, therefore, that any one who denied its truth would have contended that the law was fully efficient for the purposes for which it was enacted; and that he would have brought forward authorities to justify this view which he had taken of it. But authorities for such an opinion would have been difficult to have been found. From the days of Locke till the present time I have nowhere seen the fact disputed. It is by all writers indiscriminately allowed, that no penalties can prevent the coin from

being melted when its value as bullion becomes superior to its value as coin.

Locke calls the law which forbids the melting and exporting coin, "a law to hedge in the cuckoo." Smith observes, "that no precautions of Government can prevent it." On this subject, too, we have the authority of practical men.

The Bank Directors, in the year 1795, when the price of gold rose to 4*l.* 3s. or 4*l.* 4s. per ounce, after acquainting Mr Pitt with that fact, observe, "our guincas being to be purchased at 3*l.* 17s. 10½d. per ounce, clearly demonstrates the grounds of our fears; it being only necessary to state those facts to the Chancellor of the Exchequer." Now, what were those fears, but that there would be a run upon them for gold coin, for the purpose of melting it into bullion? Mr Newland, too, when asked (by the Committee of the Lords, 1797,) "If there were now to be a new coinage, do you think a great deal would be melted down and privately exported?" Answered, "That depends entirely upon the price of bullion." In the same Committee Mr Newland was also asked, "Is it more difficult to prevent false coining, or to prevent the melting down or exporting, when it is for their advantage to export it?"—Answer, "I am at a loss to guess how you can prevent either."

These are but a few of the opinions which might be brought forward in support of the fact of the coin being melted into bullion whenever the price of bullion rises above the price of coin. I shall conclude, however, with the opinion of Mr Bosanquet himself. Speaking of the Committee, he observes, "They say nothing about the price of bullion, which is expeeted, doubtless, to return when the Bank shall have sufficiently controlled the exchange; although Mr Locke and many other writers have elearly demonstrated that the coins of any country can only be retained within it when the general balance of trade and payments is not unfavourable." Now, under the circumstances supposed of a low exchange, what should take our coins from us but their superior value as bullion? Who would export coins if bullion could be bought at its Mint price? It is their superior value as bullion, therefore, that is the cause of their being melted and exported.

But the Committee have not been satisfied with simply stating a position which is almost self-evident; they have appealed to facts, and distinctly assert, that for a period of twenty-four years, since the recoinage, gold bullion in standard bars had not been at a higher price than 3*l.* 17s. 10½d. per ounce, with the exception of one year, beginning in May 1783, and ending in May 1784, when the price was 3*l.* 18s. per ounce. We are indeed informed by a letter from the Bank Directors to Mr Pitt, in October 1795, and it is on that authority reported by the Committee, that gold bullion was then as high as 4*l.* 3s. or 4*l.* 4s. per ounce; and it was stated by Mr Newland to the Lords' Committee in 1797, that the Bank had been frequently obliged to buy gold higher than the Mint

price; and upon one occasion gave as much, for a small quantity which their agent procured in Portugal, as 4*l.* 8s.*

These are the only facts on which Mr Bosanquet relies for overturning the principle in question. Prices not known to the public; not recorded in any list; given, too, by a corporation not remarkable for the good management of their concerns, are to be deemed the fair market price; and such exceptions as these are to overturn opinions grounded on a just theory, sanctioned by practical men, and confirmed by experience.

Is there any evidence that these prices continued even for a week? If we consult the price list, we shall find, that in July of that year, 1795, the price of gold is quoted 3*l.* 17s. 6d.; in December it is again quoted 3*l.* 17s. 6d., and in the intervening four months no price is marked. Does Mr Bosanquet think it possible that such a price as 4*l.* 4s. for gold could have continued, whilst it was to be obtained, by melting the coin, at 3*l.* 17s. 10½d.? Has he so good an opinion of the self-denial and virtues of all classes of the community? If he has, why are they not now to be trusted? What is the plea urged for not paying in specie? That at the present exchange, and present price of gold, it would be advantageous to export and melt the coin, so that there would be danger that every guinea would leave the country. But when you tell us that bullion has no connexion with coin, "that there is no point of contact between English and foreign gold," there can be no danger of any one's being particularly desirous to possess coin, as, for the mere purposes of circulation, bank notes are equally, if not more convenient.

"*If*," says Mr Bosanquet, "the demand for foreign gold was at any time very great, and the melting and exportation of guineas, however abundant, by any means effectually prevented, foreign gold might rise to double its price in English gold, and yet the intrinsic value of guineas remain undiminished."

I might apply to this *if* of Mr Bosanquet the observation which

* It appears that it was in 1795, and most probably in October, that the Bank gave 4*l.* 8s. for gold, as stated by Mr Newland. On being asked concerning the time by the Lords' Committee, he answered, "I believe it was about two years since the Bank gave about 4*l.* 8s. per ounce for gold; it was but a small quantity, it was soon stopt on account of its price. The Bank at that time thought it expedient to obtain gold from Portugal, which their agent could not do at a less price than 4*l.* 8s."

Mr Newland was speaking on the 28th March 1797.

It is a case by no means improbable that the Bank may frequently have bought foreign gold above the Mint price, at the same time that they could have obtained gold in bars, not exportable, at a comparatively cheaper price. They might flatter themselves that, by not purchasing English gold, they would lessen the temptation to melt the guineas: at the same time their diminished stock required them to replenish their coffers. This opinion is very much confirmed by an examination of the account in the Appendix of the Bullion Report, No. 19, where it appears, that from 1797 to 1810, the amount in value of gold coined at his Majesty's Mint was 8,960,113*l.*, of which only 2,296,056*l.* was coined from English gold, the remainder was coined from foreign gold. It appears, too, that since 1804, 1,402,542*l.* has been coined from foreign gold, and not one guinea from British gold. During the whole of this period the price of foreign gold in the market exceeded the price of English gold. Is it not probable, therefore, that the Bank, who are the only importers of gold into the Mint, have been guided by some such policy as I have supposed.

he has made on the same word, when used by the Committee, *your, if, is, a great peace-maker.* But the above is not our case; the law cannot be effectually enforced. The remark, therefore, is of no use in the question before us.

If the law, however, could be effectually enforced, it would be attended with the most cruel injustice. Why should not the holder of an ounce of gold in coin have the same advantages from the increase in the value of his property, as the holder of an ounce of uncoined gold? From the mere circumstance of its having had a stamp put on it, is he to be made to suffer all the inconveniences from the *fall* in the value of his gold, in consequence of the opening of new mines, or from any other circumstances, and derive none of the benefits which may result from a *rise* in its value? This injustice to individuals would not be compensated by the slightest advantages to the community; as the exportation of the coin, were it freely permitted, would always cease when the value of our currency had risen to its true bullion value, and that is precisely the value at which the currencies of all countries are permanently fixed.

Such, in spite of the law, was the value of our currency till the Bank restriction bill, and for some time after. There it would inevitably fix itself again, if that most impolitic act were repealed. Increase the value of your currency to its proper level, and you are sure to retain it. No policy can be worse than forcibly detaining a million, for example, to perform those offices to which 800,000*l.* are fully adequate.

---

## SECTION II.

Consequences which would follow on the Supposition that the Currencies of other Countries (exclusive of England) were diminished or increased one half.

LET us suppose that the circulation of all countries were carried on by the precious metals only, and that the proportion which England possessed were one million; let us further suppose, that, at once, half of the currencies of all countries, excepting that of England, were suddenly annihilated, would it be possible for England to continue to retain the million which she before possessed? Would not her currency become relatively excessive compared with that of other countries? If a quarter of wheat, for example, had been both in France and England of the same value as an ounce of coined gold, would not half an ounce now purchase it in France, whilst in England it continued of the same value as one ounce?* Could we

* That commodities would rise or fall in price, in proportion to the increase or diminution of money, I assume as a fact which is incontrovertible. Mr Bosanquet, in his admission of the effects on prices from the discovery of a mine, shows that he has no such doubts on this subject as the governor of the Bank, who, when asked by the Committee, "Do you conceive that a very considerable reduction of the amount of the circulating medium would not tend in any degree to increase its relative value

by any laws, under such circumstances, prevent wheat or some other commodity (for all would be equally affected) from being imported into England, and gold coin from being exported? If we could, and the exportation of bullion were free, gold might rise 100 per cent.; and for the same reason, if 35 Flemish schillings in Hamburgh had before been of equal value with a pound sterling, 17½ schillings would now attain that value. If the currency of England only had been doubled, the effects would have been precisely the same.

Suppose, again, the case reversed, and that all other currencies remained as before, while half of that of England was retrenched. If the coinage of money at the Mint was on the present footing, would not the prices of commodities be so reduced here that their cheapness would invite foreign purchasers, and would not this continue till the relative proportions in the different currencies were restored?

If such would be the effects of a diminution of money below its natural level, and that such would be the consequences the most celebrated writers on political economy are agreed, how can it be justly contended that the increase or diminution of money has nothing to do either with the foreign exchanges, or with the price of bullion?

Now, a paper circulation, not convertible into specie, differs in its effects in no respect from a metallic currency, with the law against exportation strictly executed.

Supposing, then, the first case to occur whilst our circulation consisted wholly of paper, would not the exchanges fall, and the price of bullion rise in the manner which I have been representing; and would not our currency be depreciated, because it was no longer of the same value in the markets of the world as the bullion which it professed to represent? The fact of depreciation could not be denied, however the Bank Directors might assure the public that they never discounted but good bills for *bonâ fide* transactions; however they might assert that they never forced a note into circulation; that the quantity of money was no more than it had always been, and was only adequate to the wants of commerce, which had increased and not diminished;* that the price of gold,

compared with commodities, and that a considerable increase of it would have no tendency whatever to augment the price of commodities in exchange for such circulating medium?"—Answered, "It is a subject on which such a variety of opinions are entertained, I do not feel myself competent to give a decided answer."

* The Bank could not on their own principles, then, urge that most erroneous opinion, that the rate of interest would be affected in the money market if their issues were excessive, and would therefore cause their notes to return to them, because, in the case here supposed, the actual amount of the money of the world being greatly diminished, they must contend that the rate of interest would generally rise, and they might therefore increase their issues. If, after the able exposition of Dr Smith, any further argument were necessary to prove that the rate of interest is governed wholly by the relation of the amount of capital with the means of employing it, and is entirely independent of the abundance or scarcity of the circulating medium, this illustration would, I think, afford it.

which was here at twice its Mint value, was equally high, or higher, abroad, as might be proved by sending an ounce of bullion to Hamburgh, and having the produce remitted by bill payable in London in bank notes; and that the increase or diminution of their notes could not possibly either affect the exchange or the price of bullion. All this, except the last, might be true, and yet would any man refuse his assent to the fact of the currency being depreciated? Could the symptoms which I have been enumerating proceed from any other cause but a relative excess in our currency? Could our currency be restored to its bullion value by any other means than by a reduction in its quantity, which should raise it to the value of the currencies of other countries; or by the increase of the precious metals, which lower the value of theirs to the level of ours?

Why will not the Bank try the experiment by a reduction in the amount of their notes of two or three millions for the short period of three months? If no effects were produced on the price of bullion and the foreign exchange, then might their friends boast that the principles of the Bullion Committee were the wild dreams of speculative theorists.

---

## SECTION III.

### The trifling Rise in the Price of Gold on the Continent owing solely to a Variation in the Relation of Silver to Gold.

But the price of gold, we are told, has risen on the Continent even more than it has here, because, when it was 4*l.* 12s. in this country, 4*l.* 17s. might be procured for it at Hamburgh, a difference of 5½ per cent. This is so often repeated, and is so wholly fallacious, that it may be proper to give it particular consideration.

When an ounce of gold was to be bought in this country at 3*l.* 17s. 10½d., and the relative value of gold was to silver as 15.07 to 1, it would have sold on the Continent for nearly the same as here, or 3*l.* 17s. 10½d. in silver coin. In Hamburgh, for example, we should have received in payment of an ounce of gold 136 Flemish schillings and 7 grotes, that quantity of silver containing an equal quantity of pure metal as 3*l.* 17s. 10½d. in our standard silver coin.

Gold has since that period risen in this country 18 per cent., and is now at 4*l.* 12s. per ounce, and it is said that the 4*l.* 12s. with which it is paid for is not depreciated. Now, as gold has risen 5½ more abroad than it has here, it must be there 23½ per cent. higher than when it was sold for 136s. 7g., and we therefore should be led to expect that we should now obtain for it at Hamburgh 167 Flemish schillings; but what is the fact? this ounce of gold, which

we are told we sell at Hamburgh for 4*l.* 17s., actually produces no more than 140 schillings 8 grotes, an advance only of 3 per cent.; and for this the seller is indebted to the rise in the relative value of gold to silver, which, from 15.07 to 1, is now about 16 to 1. It is true that, when the ounce of gold was sold at Hamburgh at 3*l.* 17s. 10½d., or for its equivalent 136 schillings 7 grotes, the currency of England was not depreciated; that sum, therefore, could only purchase a bill payable in London in bank notes for 3*l.* 17s. 10½d.; but the currency of England being now depreciated, and being estimated on the Hamburgh exchange at 28 or 29 Flemish schillings instead of 37, the true value of a pound sterling, 140 schillings 8 grotes, or 3 per cent. more than 136s. 7g., will now purchase a bill payable in London in bank notes for 4*l.* 17s.; so that gold has not risen more than 3 per cent. in Hamburgh, but the currency of England, on a comparison with the currency of Hamburgh, has fallen 23½ per cent.

In further proof of the truth of my assertion, that it is not gold which has risen 16 or 18 per cent. in the general market of the world, but that it is the paper currency, in which the price of gold is estimated in England, which alone has fallen, I will subjoin an account of the lowest prices of gold in Hamburgh, Holland, and England, in the year 1804, and the highest prices in each of those countries in the year 1810, by which we shall be enabled to ascertain the actual rise in the price of gold measured in the currencies of each. This account was furnished to the Bullion Committee by Mr Grefulhe, and is numbered 56.

| | Lowest Price. | Highest Price. | |
|---|---|---|---|
| Hamburgh | 1804—97⅜ | 1810—101 being a rise of | 3¾ per cent. |
| Holland | 1804—392¼ | 1810—406 7/16 | 3⅝ |
| England | 1804—4*l.* | 1810—4*l.* 13s. | 16 |

Now, in Hamburgh and in Holland, where the currency is silver, gold may not rise 3 per cent. only, but 30 per cent., without its being any proof of the depreciation of the currency; it proves only an improvement in the relative value of gold to silver. But in England, where the price of gold is estimated in gold coin, or in bank notes representing that coin, a rise of 1 per cent. cannot take place without its proving a corresponding *depression** of the coin or paper. This observation is equally applicable to the fact mentioned by Mr Bosanquet, and of which he himself seems aware, of gold having varied in Hamburgh no less than 8 per cent. within a period of two years.

As there is an acknowledged difference between the price of standard gold bars and the price of gold coin reduced to the English standard, arising out of the latter being a more marketable commo-

* This expression has been noticed by Mr Bosanquet as extremely theoretical, but I consider it so exceedingly correct that I have taken the liberty of using it after the Committee.

dity on the Continent,* I cannot admit the inferences which Mr Bosanquet draws from the comparison of Mr Grefulhe's paper (No. 58) with the paper, No. 60, in the Report. It would be first necessary to ascertain whether the prices of gold, as quoted in these papers (and they do not quite agree), were for gold in coin, or for gold of any other description; and whether the prices of gold in this country at different periods were always for gold of the same quality.

Mr Bosanquet observes that, "From the calculation furnished by Mr Grefulhe to the Committee, it appears that, in the spring of 1810, an ounce of gold of English standard weight was worth at Hamburgh 4*l.* 17s. sterling,—the price being 101, and the exchange 29s." The reader must recollect that it is 4*l.* 17s. in bank notes that is here meant, as I have already explained. But I cannot admit the perfect accuracy of this statement. The exporter of an ounce of gold, purchased here at 4*l.* 12s., would at least have had to wait three months before he could have received the 4*l.* 17s., because, after the gold is sold at Hamburgh, the remittance is made by a bill at $2\frac{1}{4}$ usances, so that, allowing for interest for this period, he would actually have obtained a profit of $4\frac{1}{4}$ per cent. only; but, as the expense of sending gold to Hamburgh is stated in evidence to be 7 per cent., a bill would at this time have been a cheaper remittance by $2\frac{3}{4}$ per cent.

Now, allowing that Mr Bosanquet is perfectly accurate in his statement, that the price of gold was in this country at 4*l.* 12s. during the months of June, July, August, and September 1809, as well as in the spring of 1810, and that in all these instances such price was given for gold of the same quality, his conclusion that in those months in the year 1809 a profit of $5\frac{1}{2}$ per cent. could be made by the exportation of gold, over and above the expenses, is not warranted by the fact. "If, at 101 and 29," observes Mr Bosanquet, "there was a profit on the export of gold from hence to Hamburgh of $5\frac{1}{4}$ per cent., it follows that at $104\frac{1}{2}$ (the prices in Hamburgh June, July, August, and September 1809), and 28s., there was a profit of $12\frac{1}{2}$ per cent.; or, deducting the expenses of conveyance, that gold, if bought here at 4*l.* 12s. per ounce, was a cheaper remittance by $5\frac{1}{2}$ per cent. than a bill at the current exchange." As I have already shown that when the exchange was 29, and the price of gold in Hamburgh 101, gold was a dearer remittance than by bill by $2\frac{3}{4}$ per cent., it follows that at 28s. and $104\frac{1}{2}$, it was only cheaper by $4\frac{1}{4}$ per cent.

These facts prove that in June, July, August and September 1809, whilst the exchange was at Hamburgh 28s. and gold $104\frac{1}{2}$, the real exchange was in favour of Hamburgh; whilst, in the spring of 1810, it was so much less favourable that it would not cover the expenses attending the importation of gold.

* See last note, page 316.

As for the rise of gold in Hamburgh with an invariable exchange, it is what would have been naturally expected if there had been a corresponding rise in the price of gold here. In proportion as the English currency becomes depreciated as compared with gold, will it become worth fewer of the schillings of Hamburgh, unless a rise in the value of gold at Hamburgh should counteract the depreciation, by making a gold pound sterling more valuable.

The exchanges, again, would partake in all the variations in the value of a depreciated pound sterling, whilst the price of gold continued invariable at Hamburgh.

"It appears," says Mr Bosanquet, "by the return from the Bullion office at the Bank, No. 7 and 8 in the Appendix to the Report, that the total amount of gold bullion imported and deposited in the Bullion-office in 1809 amounted in value to only L.520,225
That during the same period, the quantity of gold delivered out of the Bullion-office amounted in value to L.805,568
of which only 592*l.* was not exportable.

"The amount of the importation is therefore such as, when compared with the amount of exports and imports, and that of the circulating medium, to justify the assumption of comparative scarcity; and the excess of delivery beyond the importation is sufficient evidence of unusual demand."

The fact itself here insisted on would be of little importance in the question which we are now discussing; but it appears to me that Mr Bosanquet is not warranted in his conclusions by the statements in the accounts to which he refers.

The excess of delivery beyond the importation is not any evidence of unusual demand, as it is accounted for by the following note to No. 7, from which the larger sum is extracted.

> "*Note.*—The above is the amount of gold which has passed the Bullion-office in the time above named, as sales and purchases by private dealers, but *which may have passed more than once* the Bullion-office, having no information generally from whence the seller procures his gold."

The importations stated in No. 8 are actually deposited by importers from abroad, and can only be received once. Besides this objection, these accounts were not fair subjects of comparison, No. 7 being made up to the 18th April 1810, No. 8 to 30th March 1810.

"The point of view in which these facts are important," continues Mr Bosanquet, "is that which places the amount of gold imported or delivered in line of comparison with the amount of paper currency, supposed to be depreciated on the evidence of the increased price of bullion. The advance of 12s per ounce on the total quantity of gold delivered in one year—about 200,000 ounces—amounts to 120,000*l.* or 130,000*l.*, and this is assumed as an unequivocal symptom of a depreciation of 12 or 13 per cent. on 30 or 40 millions of paper, the probable amount of our paper currency." "We may

soon expect to be told that the value of bank notes has increased, because the paper on which they are made is somewhat dearer than heretofore."

The value of a bank note is ascertained, not by the number of transactions which may take place in the purchase or sale of gold, but by the actual comparative value of the note with the value of the coin for which it professes to be a substitute.

As it is allowed that a Government bank might force a circulation of paper, *although our Bank cannot*, how would Mr Bosanquet calculate the depreciation of such forced notes but by a comparison of their value with the value of bullion? Would he think it necessary to inquire whether 100 ounces only had been the amount transacted in the year, or whether it had been a million? If gold be not a test by which to estimate depreciation, what is? Whilst it is a criminal offence to buy guineas at a premium, it does not seem probable that we can possess the only test which would satisfy these gentlemen, namely, two prices for commodities, a price in guineas, and another in bank notes. They might, even in that case, contend, that it was the scarcity of gold abroad which had raised the value of the guinea.

---

## SECTION IV.

Failure ascribed to Mr Locke's Theory relative to the Recoinage in 1696.

It is correctly stated by Mr Bosanquet, that Mr Locke's theory was similar to that now held. He did most certainly maintain that an ounce of silver in coin could not be less valuable than an ounce of silver bullion of the same standard. And the Committee now maintain, that in the sound state of the British currency an ounce of gold bullion cannot, for any length of time, be of more value than 3*l.* 17s. 10½d., or an ounce of gold coin: but neither of these opinions have been yet found incorrect. The effects expected from the re-coinage in King William's reign failed of being realized, not because Mr Locke's theory was followed, but because it was not followed. It did not fail because he could not be convinced that "the value of silver bullion was become greater than the standard or Mint price" (that being impossible if estimated in silver coin), but because his suggestions were not adopted.

It was proposed by Mr Locke that silver coin should be the only fixed legal standard of currency, and that guineas should pass current in all payments at their bullion value. Under such a system, a guinea would have partaken of all the variations in the relative value of gold and silver; it might at one time have been worth 20s., and at another 25s.: but, contrary to Mr Locke's principle, the value of the guinea was first fixed at 22s, and

afterwards at 21s. 6d., whilst its value as bullion was considerably below it.* At the same time the silver coin, for the very reason that gold was rated too high, passed in currency at a value less than its bullion value. It was to be expected, therefore, that the gold coin would be retained, and that the silver coin would disappear from circulation. If the value of the guinea in currency had been lowered to its true market value in silver, the exportation of the silver coin would immediately have ceased, and, in fact, this was the remedy which was at last adopted. The matter being referred to Sir I. Newton in 1717, then master of the Mint, he reported, "the principal cause of the exportation of the silver coin was, that a guinea, which then passed for 21s. 6d., was generally worth no more than 20s. 8d., according to the relative value of gold to silver at the market, though its value occasionally varied." "He then suggested, that 6d. should be taken off from the value of the guinea in order to diminish the temptation to export and melt down the silver coin, acknowledging, however, that 10d. or 12d. ought to be taken from the guinea, in order that gold might bear the same proportion with silver money in England which it ought to do by the course of trade and exchange in Europe."† The same effects would have followed without the intervention of Government, if the relative value of gold and silver in the market had so varied as to have made them agree with the Mint proportions.

Lord Liverpool, in speaking of the re-coinage in 1696, is of a very different opinion from Mr Bosanquet;—so far from considering that measure as having "subjected the nation to disappointment and inconvenience, under which we still labour, and to an unprofitable expense of nearly 3 millions sterling," he observes, "that great as this charge was, the losses which the Government as well as the people of this kingdom continued daily to suffer till the re-coinage was completed, justified almost any expense which might be incurred for their relief."

Mr Bosanquet is not quite correct in saying, page 34, that the price of silver has never been under the Mint price since the re-coinage in the reign of King William. On a reference to Mr Mushet's tables, it appears that it was as low as 5s. 1d. in 1793 and 1794, and in 1798 it fell to 5s., which was the occasion of the law for prohibiting the coinage of silver which I have already noticed.‡

* It may be said, that, although guineas were by law prohibited from passing at more than 21s. 6d., they were not declared a legal tender till 1717; and, therefore, that no creditor was obliged to accept of them in discharge of a debt at that rate. But if Government received them in the payment of taxes at such value, the effects would be nearly the same as if they had by act of Parliament been made a legal tender.

† Lord Liverpool's letter to the King.

‡ Since this was sent to the press I have seen the second edition of Mr Bosanquet's work, in which this inaccuracy is corrected.

## CHAPTER IV.

MR BOSANQUET'S OBJECTIONS TO THE STATEMENT, THAT THE BALANCE OF PAYMENTS HAS BEEN IN FAVOUR OF GREAT BRITAIN, EXAMINED.

HAVING considered all those points deemed so important by Mr Bosanquet in contradiction of the opinion of the Committee, "that it is by a comparison of the market and Mint value of bullion, that the fact of the depreciation of the currency can be estimated;" and having, I trust, made it evident that there is no other test singly, by which we are enabled to judge of the sound or unsound state of our paper currency, I shall proceed to the consideration of the next disputed position of the Bullion Committee; namely, "That so far as any inference is to be drawn from Custom-house returns of exports and imports, the state of the exchanges ought to be peculiarly favourable."

Mr Bosanquet has been at the trouble of consulting numerous documents to prove that the Committee have not only committed an error to the amount of 7,500,000*l.* in their estimate of the balance of exports, but other errors to a still greater amount; and that, in fact, so far from their opinion being well founded, that the state of the exchange ought to have been favourable to this country during the past year, the actual amount of the balance of payments to the Continent had been unusually great.

As I am desirous only of defending the principles of the Committee, and as these facts are by no means essential to those principles, I shall not enter into any examination of the correctness either of the statements of the Committee, or of those of Mr Bosanquet, but will at once concede to him the facts, difficult as he would find it to prove all of them, for which he contends.

That the balance of payments has been against this country cannot, I conceive, admit of dispute. The state of the real exchange sufficiently proves it, as that infallibly indicates from which country bullion is passing. It would, however, have been of some satisfaction to those who are desirous of clearly understanding this difficult subject, if Mr Bosanquet had acquainted us with the means which we possessed of paying the very large unfavourable balance for which he contends. Does he imagine that it has actually been discharged with our own hoard of gold? Do we usually keep

unemployed such a large amount of bullion that we can afford to pay such balances year after year?

As we have no mines of our own, if we do not actually possess it, we must purchase it from foreign countries; but bank notes will be useless for such purpose. If the price of gold in bank notes be 4*l.* per ounce, or 10*l.* per ounce, we shall not obtain the slightest addition to our quantity of bullion, as it can only be procured by the exportation of goods. If we obtain it from America, for example, it is with goods we must purchase it. In that case, on a view of the whole trade of the country, we have discharged a debt in Europe by the exportation of goods to some other part of the world, and the balance of payments, however large it may be, must ultimately be paid by the produce of the labour of the people of this country. Bills of exchange never discharge a debt from one country to another; they enable a creditor of England to receive, at the place where he is resident, a sum of money from a debtor to England; they effect a transfer of a debt, but do not discharge it. That a demand for gold (if it could be allowed that our creditor would accept nothing but gold) might occasion a rise in its value, no one denies. If, therefore, goods had become exceedingly cheap, it would have been the natural effect of such a cause. But how is any rise in its price in bank notes to procure it, even if we suppose it hoarded in England?

The seller is not to be deluded with an increase of nominal value; it will be to him of little importance whether he sells his gold at 3*l.* 17s. 10½d., or at 4*l.* 12s. per ounce, provided either of those sums will procure him the commodities for which he intends ultimately to exchange his gold. If, then, bank notes to the amount of 3*l.* 17s. 10½d. be rendered of equal value in procuring the commodities which he seeks to purchase, with 4*l.* 12s., as much gold will be procured at one price as at the other. Now, can it be denied, that by reducing the amount of bank notes their value will be increased? If so, how can the reduction of bank notes prevent us from obtaining the same amount of gold, both at home and abroad, to discharge our foreign debt, as we now obtain by a nominal and fictitious price?

"At a moment," says Mr Bosanquet, "when we were *compelled* to receive corn, even from our enemy, without the slightest stipulation in favour of our own manufacturer, and to pay neutrals for bringing it, Mr Ricardo tells us, that the export of bullion and merchandise, in payment of the corn we may export, resolves itself entirely into a question of interest, and that, if we give corn in exchange for goods, it must be from choice, not necessity. Whilst providing against famine, he tells us, that we should not import more goods than we export, unless we had a redundancy of currency."

Mr Bosanquet speaks as if the nation collectively, as one body, imported corn and exported gold, and that it was compelled by

hunger so to do, not reflecting that the importation of corn, even under the case supposed, is the act of individuals, and governed by the same motives as all other branches of trade. What is the degree of *compulsion* which is employed to make us receive corn from our enemy? I suppose no other than the want of that commodity which makes it an advantageous article of import: but if it be a voluntary, as it most certainly is, and not a compulsory bargain between the two nations, I do still maintain that gold would not, even if famine raged amongst us, be given to France in exchange for corn, unless the exportation of gold was attended with advantage to the exporter, unless he could sell corn in England for more gold than he was obliged to give for the purchase of it.

Would Mr Bosanquet, would any merchant he knows, import corn for gold on any other terms? If no importer would, how could the corn be introduced into the country, unless gold or some other commodity were cheaper here? As far as those two commodities are concerned, do not these transactions as certainly indicate that gold is dearer in France, as that corn is dearer in England?

Seeing nothing in Mr Bosanquet's statement to induce me to change my opinion, I must continue to think that it is interest, and interest alone, which determines the exportation of gold, in the same manner as it regulates the exportation of all other commodities. Mr Bosanquet would have done well, before he had deemed this opinion so extravagant, to have used something like argument to prove it so; and he would not have hurt his cause, if, even in the year 1810, he had explained his reason for supporting a principle advanced by Mr Thornton in 1802, the correctness of which was questioned in 1809.

Bullion will not be exported unless we have previously imported it for such purpose, or unless from some circumstances in our internal circulation it has been rendered cheap and less useful to us. If Milan decrees, embargoes, non-intercourse acts, &c., affect the exportation of commodities, they also affect their importation, as no country can long continue to buy unless it can also sell; and least of all, England, who by the abundance of her paper has driven from her circulation every vestige of the precious metals.

"If the currency be depreciated below the value of gold," Mr Bosanquet tells us, "it is so positively, not relatively, and all exchanges must equally feel the influence of the depreciation." (Page 20). Most true; and therefore if Mr Bosanquet could have shown that with *any one country in the world* whose currency is not debased nor depreciated, the exchange had been favourable to England, he would have successfully controverted the opinion of the Committee.

Some able writers on this subject have lately taken, I think, a mistaken view of the exportation of money, and of the effects produced on the price of bullion by an increase of currency through paper circulation.

Mr Blake observes, "All writers upon the subject of political economy that I have met with seem to be persuaded that, when the rate of exchange has deviated from par beyond the expenses of the transit of bullion, bullion will immediately pass; and the error has arisen from not sufficiently distinguishing the effects of a *real* and a *nominal* exchange;" and many pages are employed in proving, that on every addition to the paper circulation, even when a great part of the currency consists of the precious metals, the price of bullion will be raised in the same proportion as other commodities; and as the foreign exchange will be nominally depressed in the same degree, no advantage will arise from the exportation of bullion. The same opinion is maintained by Mr Huskisson, page 27.

"If the circulation of a country were supplied partly by gold and partly by paper, and the amount of that circulation were doubled by an augmentation of that paper, the effect upon prices at home would be the same as in the former case" (a rise in the price of commodities). "But gold not becoming, by this augmentation of currency, more abundant in such a country than in other parts of the world, as a *commodity*, its relative value to other commodities would remain unaltered; as a commodity, also, its price would rise in the same proportion as that of other commodities, although, in the state of coin, of which the *denomination* is fixed by law, it could only pass current according to that *denomination*.

"When paper is thus augmented in any country, the exportation of the gold coin, therefore, will take place; not because gold, as a *commodity*, is become more abundant and less valuable with reference to other commodities in such a country; but, from the circumstance of its value as currency remaining the same, while its price in that currency is increased in common with the prices of all other commodities."

I should perfectly agree with these writers, that the effects on the value of gold, as an exportable commodity, would be as they describe, provided the circulation consisted wholly of paper; but no rise would take place in the price of bullion in consequence of an addition of paper currency, whilst the currency was either wholly metallic, or consisted partly of gold and partly of paper.

If an addition be made to a currency consisting partly of gold and partly of paper, by an increase of paper currency, the value of the whole currency would be diminished, or, in other words, the prices of commodities would rise, estimated either in gold coin or in paper currency. The same commodity would purchase, after the increase of paper, a greater number of ounces of gold coin, because it would exchange for a greater quantity of money. But these gentlemen do not dispute the fact of the convertibility of coin into bullion, in spite of the law to prevent it. Does it not follow, therefore, that the value of gold in coin, and the value of gold in bullion, would speedily approach a perfect equality? If, then, a commodity would sell, in consequence of the issue of paper,

for more gold coin, it would also sell for more gold bullion. It cannot, therefore, be correct to say, that the relative value of gold bullion and commodities would be the same after, as before, the increase of paper.

The diminution in the value of gold, as compared with commodities, in consequence of the issues of paper in a country where gold forms part of the circulation, is, in the first instance, confined to that country only. If such country were insulated, and had no commerce whatever with any other country, this diminution in the value of gold would continue till the demand for gold for its manufactures had withdrawn the whole of its coin from circulation, and not till then would there be any visible depreciation in the value of paper as compared with gold, whatever the amount of paper might be which was in circulation.

As soon as the gold had been wholly withdrawn, the demand for manufactures still continuing, gold would rise above the value of paper, and would soon obtain that relative value to other commodities which subsisted before any addition had been made to the circulation by the issues of paper. The mines would then supply the quantity of gold required, and the paper currency would continue to be permanently depreciated. During this interval, the gold mines of such country, if it possessed any, could not be worked, because of the low value of gold, which would have reduced the profits on capital employed in the mines below the level of the profits of other mercantile concerns. As soon as this equality of profit were established, the supply of gold would be as regular as before. These would be the consequences of a great issue of paper in a country having no intercourse with any other.

But if the country supposed, as is the case with England, had intercourse with all other countries, any excess of her currency would be counteracted by an exportation of specie, and if that excess did not exceed the amount of coin in circulation, which could be easily collected by those who evade the law, no depreciation of the currency would take place.

Suppose England to have 1000 ounces of gold in the state of bullion, and 1000 ounces in the state of coin, whilst her exchange with foreign countries was at par; that is to say, whilst the value of gold abroad was precisely the same as here, and therefore could be neither advantageously exported nor imported.

Suppose, too, that the Bank were at such time to issue notes to an amount which should represent 1000 ounces more of gold, and that they were not exchangeable for specie. If her bullion retained the same value after as before the issue of paper (which is the point contended for), how could a single guinea be exported? Who would be at the trouble and risk of sending guineas to the Continent to be sold there for their value as bullion, while the value of bullion continued here as high as before, and consequently as high as the price abroad? Would not the coin be melted and sold as bullion

at home, till the value of bullion had so much diminished in its relative value to the bullion of other countries, and therefore to the relative value of commodities here, as to pay the expenses of transportation; or, in other words, till the exchange had fallen to the price at which it would repay such expenses? At that price the whole 1000 ounces would go at once, or if any part were retained in circulation, it would not be of less value than an equal weight of gold bullion. I am all along considering the law as having no effect in preventing exportation, and if it be contended that the law could be strictly executed, that argument would be equally applicable if the addition to the currency had been made in gold coin, and not in paper currency.

It appears, therefore, evident, first, that by the addition of paper to a currency consisting partly of gold and partly of paper, gold bullion will not necessarily rise in the same degree as other commodities; and, secondly, that such addition will cause depression not in the nominal but in the real exchange, and therefore that gold will be exported.

But to return to Mr Bosanquet. He observes, "that the three propositions," viz. those on which I have been commenting, "appear to have been brought forward by the Committee as well as by the authors on whose theories the Report is founded, to induce the admission of the depreciation of the paper currency of this country as the necessary consequence of the impossibility of accounting for the depression of the exchanges and the increased price of bullion in any other way. They may be termed negative arguments."

Now, as far as I, who am one of the authors arraigned, am concerned, Mr Bosanquet is incorrect: the third of these propositions was not on any occasion brought forward by me. The fact of the balance of payments being for or against this country could be of little consequence, in my estimation, to the proof of the theory which I maintain. Whether a part of our exports or a part of our imports consisted of gold cannot in the least affect this question; it is abundantly certain that our currency is neither by ourselves nor by foreigners estimated at its bullion value. And why should our currency be degraded below such value more than those of America, France, Hamburgh, Holland, &c.? The answer is, because neither of those countries have a paper currency not convertible into specie at the will of the holder.

## CHAPTER V.

MR BOSANQUET'S ARGUMENT TO PROVE THAT THE BANK OF ENGLAND HAS NOT THE POWER OF FORCING THE CIRCULATION OF BANK NOTES, CONSIDERED.

THE fourth proposition is what now presents itself for discussion: "That the Bank, during the restriction, possesses exclusively the power of limiting the circulation of bank notes."

It is difficult to determine whether Mr Bosanquet thinks that even a forced paper circulation could have the effect of lowering the exchange; so confidently is it asserted by him that there is no connexion between the exchanges and the amount of bank notes. If the Bank were to become truly a Government Bank, in the sense in which Mr Bosanquet somewhere uses that term; if they were to advance all the money requisite for the service of the year; if from 20 millions they were to raise the amount of their notes to 50 millions, would not such a bank be justly said to force a circulation of paper? and would not the effect of such a forced circulation of paper be, that their notes would be depreciated, that the price of bullion would rise, and the foreign exchanges fall? Would not these effects take place although Government were to guarantee the notes of the Bank, and the final payment of them should by no one be doubted? Would not the abundance of the circulation alone produce depreciation? Or, is it to be maintained that no abundance of paper money, provided its final redemption be certain, can cause depreciation? A proposition so extravagant will hardly, I think, be supported, and it must therefore be admitted that depreciation may arise from the abundance of notes alone, however great might be the funds of those who were the issuers of them. As these symptoms, then, which accompany a forced paper currency are, at this moment, too glaring to be denied, as they cannot be accounted for in any other way either by theory or by an appeal to experience, are we not justified in our suspicions that the Bank of England, as at present constituted, is not so devoid of the power of forcing a circulation as their friends would have us believe? It is not intended by the words, forced circulation, to accuse the Bank of having departed from those cautions which have usually accompanied the issue of their paper; it is meant only that the restriction bill enables them to keep in circulation an amount of notes (allowance

made for the coin that would then be in circulation) greater than they could maintain but for that measure. It is this surplus sum which I consider as producing precisely the same effects as if it were forced on the public by a Government Bank. The plea that no more is issued than the wants of commerce require is of no weight; because the sum required for such purpose cannot be defined. Commerce is insatiable in its demands, and the same portion of it may employ 10 millions or 100 millions of circulating medium; the quantity depends wholly on its value. If the mines had been ten times more productive, ten times more money would the same commerce employ. This Mr Bosanquet admits, but denies the analogy between the issues of the Bank and the produce of a new gold mine.

On this subject Mr Bosanquet makes the following observations:

"Mr Ricardo has assimilated the Bank of England during the restriction, so far as relates to the effects of its issues, to a gold mine, the produce of which being thrown into circulation, in addition to the circulating medium already sufficient, is an excess; and has the acknowledged effect of depreciating the value of the existing medium, or, in other words, of raising the prices of commodities for which it is usually exchanged. But Mr Ricardo has not stated what is essential to the comparison, *why* it is that the discovery of a gold mine would produce this effect. It would produce it, because the proprietors would issue it, for whatever services, without any engagement, to give an equal value for it again to the holders, or any wish, or any means, of calling back and annihilating that which they have issued. By degrees, as the issues increase they exceed the wants of circulation; gold produces no benefit to the holder as gold; he cannot eat it, nor clothe himself with it; to render it useful, he must exchange it either for such things as are immediately useful, or for such as produce revenue. The demand, and consequently the prices, of commodities and real properties measured in gold, increases, and will continue to increase as long as the mine continues to produce. And this effect will equally follow whether, under the circumstances I have supposed, the issue be gold from a mine or paper from a Government Bank. All this I distinctly admit; but in all this statement, there is not one point of analogy to the issues of the Bank of England.

"But the principle on which the Bank issues its notes is that of loan. Every note is issued at the requisition of some party, who becomes indebted to the Bank for its amount, and gives security to return this note, or another of equal value, at a fixed and not remote period; paying an interest proportioned to the time allowed."

Now, supposing the gold mine to be actually the property of the Bank, even to be situated on their own premises, and that they procured the gold which it produced to be coined into guineas, and in lieu of issuing their notes when they discounted bills or lent money to Government, that they issued nothing but guineas; could

there be any other limit to their issues but the want of the further productiveness in their mine? In what would the circumstances differ if the mine were the property of the king, of a company of merchants, or of a single individual? In that case Mr Bosanquet admits that the value of money would fall, and I suppose he would also admit that it would fall in exact proportion to its increase.

What would be done with the gold by the owner of the mine? It must be either employed at interest by himself, or it would finally find its way into the hands of those who would so employ it. This is its natural destination; it may pass through the hands of 100 or 1000 persons, but it could be employed in no other manner at last. Now, if the mine should double the quantity of money, it would depress its value in the same proportion, and there would be double the demand for it. A merchant who before required the loan of 10,000*l.* would now want 20,000*l.*; and it could be of little importance to him whether he continued to borrow 10,000*l.* of the Bank, and 10,000*l.* of those with whom the money finally rested, or whether he borrowed the whole 20,000*l.* of the Bank. The analogy seems to me to be complete, and not to admit of dispute. The issues of paper not convertible are guided by the same principle, and will be attended with the same effects as if the Bank were the proprietor of the mine, and issued nothing but gold. However much gold may be increased, borrowers will increase to the same amount, in consequence of its depreciation; and the same rule is equally true with respect to paper. If money be but depreciated sufficiently, there is no amount which may not be absorbed, and it would not make the slightest difference whether the Bank with their notes actually purchased the commodities themselves, or whether they discounted the bills of those who would so employ them.

If it were granted to Mr Bosanquet that a given sum, and no more, could be absorbed in the circulation, the effects he states would follow: but I deny that there would be a surplus seeking in vain for advantageous employment, and which, not being able to find it, would necessarily either return to the Bank in payment of a bill already discounted, or would prevent an application to them for an advance of money to that amount.

If money, however abundantly issued, could retain its value, such might be the effects; but as, when once it is brought into circulation, depreciation commences, the employment for the additional sum would retain it in the currency.

Let us recur to the effect which would result from the establishment of a bank of undoubted credit in a country where the circulation was wholly metallic.

Such a bank would discount bills or make advances to Government as our Bank does; and if the principle now contended for by Mr Bosanquet be correct, their notes would necessarily return on them as soon as issued; because the metallic currency being before

sufficient for the commerce of the country, no additional quantity could be employed.—But this is contrary both to theory and experience. The issues of the Bank would, as they now do, not only depreciate the currency, but the value of bullion at the same time, as I have endeavoured to explain at page 338; this, again, would be the temptation to exportation, and the diminution of the currency would make it regain its value. The Bank would issue more notes, and the same effects would follow; but in no case would there be such an excess as would induce any holder of notes to return them to the Bank in payment of loans, if the law against the exportation of money could be effectually executed. Money would be demanded because it could be profitably exported, and not because it could not be absorbed in the circulation. But let us suppose a case in which money could not be profitably exported—Let us suppose all the countries of Europe to carry on their circulation by means of the precious metals, and that each were at the same moment to establish a Bank on the same principles as the Bank of England—Could they, or could they not, each add to the metallic circulation a certain portion of paper? and could or could they not permanently maintain that paper in circulation? If they could, the question is at an end; an addition might then be made to a circulation already sufficient, without occasioning the notes to return to the Bank in payment of bills due. If it is said they could not, then I appeal to experience, and ask for some explanation of the manner in which bank notes were originally called into existence, and how they are permanently kept in circulation.

I should find it laborious to follow up in all its bearings the analogy between the first establishment of a Bank, the discovery of a mine, and the present situation of our Bank; but of this I am fully certain, that if the principle advanced by the Bank Directors be correct, not a bank note could ever have been permanently kept in circulation, nor would the discovery of the mines of America have added one guinea to the circulation of England. The additional gold would, according to this system, have found a circulation already adequate, and in which no more could be admitted.

The refusal to discount any bills but those for *bonâ fide* transactions would be as little effectual in limiting the circulation; because, though the Directors should have the means of distinguishing such bills, which can by no means be allowed, a greater portion of paper currency might be called into circulation, not than the wants of commerce could employ, but greater than what could remain in the channel of currency without depreciation. It is well known that the same thousand pounds may settle 20 *bonâ fide* transactions in one day. It may pay for a ship; the seller of a ship may pay with it his rope-maker;—he again may pay the Russian merchants for hemp, &c., &c. Now, as each of these was a *bonâ fide* transaction, a bill might have been drawn by each, and the Bank, by their rule, might discount them all; so that 20,000*l.* might be called into

circulation to perform those payments for which 1000*l.* was equal. I am aware that the opinion of Dr Smith, as quoted by Mr Bosanquet, appears to favour his opinion; but that able writer has, in various passages of his work, and within a few pages of that from whence Mr Bosanquet has quoted, declared that "The whole paper money of every kind which can easily circulate in any country can never exceed the value of the gold and silver of which it supplies the place, or which (the commerce being supposed the same) would circulate there if there were no paper money."

To this test we must not submit our currency. If at its present amount it consisted of gold and silver, no laws, however severe, could retain it in circulation; a part would be melted and exported till it was reduced to its just level. At that level it would be as impossible to force the exportation of it. In such case we should no longer hear of the balance of payments being against us, nor of the necessity of exporting gold in return for corn. That such would be the consequences cannot be doubted by those who are familiar with the writings of Dr Smith. But if it should be otherwise, if the Continent should adopt the almost impossible, absurd policy of wishing to buy more of that of which they already had too much, what evil consequences would ensue to us, even if our currency were reduced to the same level at which it stood before the discovery of America? Would not this be a national gain? inasmuch as the circulation of the same commerce being carried on with a smaller amount of gold, the balance might be profitably employed in procuring a return of more useful and more productive commodities. And if the circulation of paper were reduced in the same proportion, would not the profits now gained by the Bank be enjoyed by those who can show a much better title to them?

It is fortunate for the public that there should exist the disinclination to discount at the Bank which Mr Bosanquet mentions,—as without some such check, it is impossible to say to what amount bank notes might by this time have been multiplied. Indeed, to all those who have given the subject any consideration, it is matter of surprise that our circulation has been confined within such moderate bounds, after knowing the principles which the Bank Directors have avowed as their guide in regulating their issues.

## CHAPTER VI.

### OBSERVATIONS ON THE PRINCIPLES OF SEIGNORAGE.

Dr Smith, though favourable to a small seignorage on the coin, was fully aware of the evils which might attend a large one.

The limits, beyond which a seignorage cannot be advantageously extended, are the actual expenses incurred by the manufacturing of bullion into coin. If a seignorage exceeds these expenses, an advantage will accrue to false coiners by imitating the coins, although they should actually make them of their legal weight and standard; but even in this case, as the addition of money to the circulation beyond the regular demands of commerce will diminish the value of that money, the trade of false coiners must cease when the value of the coin does not exceed the value of bullion more than the actual expenses of fabrication. If the public could be secured from such illegal additions to the circulating medium, there could be no seignorage so high which a Government might not advantageously exact; as the coined money would, in the same degree, exceed the value of bullion. If the seignorage amounted to 10 per cent., bullion would necessarily be 10 per cent. under the Mint price; and if it were 50 per cent., that also would the value of coin exceed the value of bullion. It appears, then, that although a given weight of bullion can never exceed in value a given weight of coin, a given weight of coin may exceed in value a given weight of bullion by the whole expense of seignorage, however great that seignorage may be, provided that there was effectual security against the increase of money through the imitation of the coins by illegal means. And it appears also, that if no such security could be given, the trade of the false coiner would cease as soon as he had added so much to the amount of the coin as to diminish its value on a comparison with bullion, to the actual expenses incurred. That these principles are correct may be proved from the consideration of the circumstances which give value to a bank note. A bank note is of no more intrinsic value than the piece of paper on which it is made. It may be considered as a piece of money on which the seignorage is enormous, amounting to all its value; yet if the public is sufficiently protected against the too great increase of such notes, either by the indiscretion of the issuers, or by the

practices of false coiners or forgers, they must, in the ordinary operations of trade, retain their value.

Whilst such money is kept within certain limits, any value may be given to it as currency; 3*l.* 17s. 10½d. may be worth an ounce of gold bullion, the value at which it was originally issued, or it may be reduced to the value of half an ounce; and if the Bank which issued had the exclusive privilege of procuring money to be coined at the Mint, 3*l.* 17s. 10½d. of their notes might be rendered of equal value to 1, 2, 3, or any number of ounces of gold bullion.

The value of such money must depend wholly upon its quantity; and in the case supposed, the Bank would not only have the power of limiting the amount of paper money, but of metallic money also.

I have before endeavoured to show, that, previously to the establishment of banks, the precious metals employed as money were necessarily distributed amongst the different countries of the world in the proportion that their trade and payments required; that, whatever the value of the bullion so employed for the purposes of currency might be, the equal demands and necessities of all countries would prevent the quantity allotted to each from being either increased or diminished, unless the proportions in the trade of countries should undergo some alteration which should make a different division necessary; that England or any other country might substitute paper instead of bullion for the uses of money, but that the value of such paper must be regulated by the amount of coin of its bullion value which would have circulated had there been no paper.

Under this point of view the paper currency of any particular country represents a certain weight of bullion which, her commerce and payments continuing the same, could neither be increased nor diminished; 3*l.* 17s. 10½d. of coin or paper currency might represent an ounce of gold bullion, or 4*l.* 13s. might, in consequence of some internal regulation, do the same; but the actual amount of bullion so represented would, under the same circumstances of commerce and payments, be eternally the same.

Suppose that England's share amounted to a million of ounces; if, by a law which could be effectually executed, a million and a half of ounces in coin could be forced or retained in circulation by preventing its being melted or exported; or if, by means of a restriction bill, the Bank should be enabled to maintain an amount of paper which should represent a million and a half of ounces of coined gold in circulation, such million and a half would be of no more value in currency than a million of ounces; and consequently an ounce and a half of coined gold, or bank notes which represented that amount, would purchase no more of any commodity than an ounce of gold bullion. If, on the other hand, Government were to charge a seignorage of 50 per cent., or if the issues of the Bank were to be exceedingly limited, whilst they had also the exclusive right of coining, so that the whole amount of their notes did not exceed what should represent, at the Mint price, half a million of

ounces of gold, that half million would in currency pass for the same value as the million of ounces in one case, and the million and a half in the other did before.

From these principles it results, that there can exist no depreciation of money but from excess. However debased a coinage may become, it will preserve its Mint value, that is to say, it will pass in circulation for the intrinsic value of the bullion which it ought to contain, provided it be not in too great abundance. It is a mistaken theory, therefore, to suppose that guineas of 5 dwts. and 8 grains cannot circulate with guineas of 5 dwts. or less. As they might be in such limited quantity that both the one and the other might actually pass in currency for a value equal to 5 dwts. 10 grains, there would be no temptation to withdraw either from circulation; there would be a real profit in retaining them. In practice, indeed, it would seldom occur that the heavier pieces would escape the melting pot, but it would arise wholly from the augmentation of such currency, either by the liberal issues of the Bank, or by the supply of false money which the arts of the false coiner would throw into circulation.

Our silver currency now passes at a value in currency above its bullion value, because, notwithstanding the profit obtained by the counterfeiter, it has not yet been supplied in sufficient abundance to affect its value.

It is on this principle, too, that the fact must be accounted for, that the price of bullion previously to the recoinage in 1696 did not rise so high as might have been expected from the then debased state of the currency; the quantity had not been increased in the same proportion as the quality had been debased.

It also follows from these principles, that in a country where gold is the measure of value, the price of gold bullion (where the law offers no restraint against exportation) can never exceed its Mint price; and that it can never fall more below it than the expenses of coinage; and that these variations depend wholly on the supply of coin or paper currency being proportioned to the trade of the country; or, in other words, that nothing can raise the value of bullion even so high as the Mint price but an excess of circulation. If, indeed, any power in the State have the privilege of increasing the paper currency at pleasure, and be at the same time protected from the payment of its notes, there is no other limit to the rise of the price of gold than the will of the issuers.

## CHAPTER VII.

MR BOSANQUET'S OBJECTIONS TO THE PROPOSITION, THAT THE CIRCULATION OF THE BANK OF ENGLAND REGULATES THAT OF THE COUNTRY BANKS, CONSIDERED.

THE next proposition which Mr Bosanquet attempts to disprove is that in which the Committee give it as their opinion, "That the circulation of country bank notes depends upon, and is proportionate to, the issues from the Bank."

There are many practical authorities for the truth of this principle also. It appears to be singularly unfortunate, that few of the principles of the Bullion Committee which Mr Bosanquet has selected have not the authority of practical men, to whose opinions on these subjects so much deference is paid. That the exchange can never vary for any length of time beyond the limits defined by the Committee has been, and is, the opinion of the ablest practical men.

That the price of bullion cannot long continue with a sound system of currency, above the Mint price, has received full confirmation from the same quarter, and the proposition now under discussion is not without the same sanction. Mr Huskisson has already availed himself of the authority of the Governor of the Bank for its truth, who declared in his evidence to the Committee, page 127, "The country banks, by not regulating their issues on the principle of the Bank of England, might send forth a superabundance of their notes; but this excess, in my opinion, would no sooner exist in any material degree, than it would be corrected by its own operation, for the holders of such paper would immediately return it to the issuers, when they found that in consequence of the over issue its value was reduced, or likely to be reduced, below par; thus, though the balance might be slightly and transiently disturbed, no considerable or permanent over-issue could possibly take place, as from the nature of things the amount of bank notes in circulation must always find its level in the public wants." Mr Gilchrist of the Bank of Scotland, stated to the Committee, that "If the Bank of England were to restrict their issues, of course the Scotch banks would find it necessary to diminish theirs." "The issues of the Bank of England," he observed, "operate upon the issues of the banks of Scotland in this manner. If the banks of Scotland issue

more than they ought to do in proportion to the issues of the Bank of England, they would be called upon to draw bills upon London at a lower rate of exchange." (Page 114, App.) Mr Thompson, a country banker, and a member of the Committee, was asked, "By what criterion do the country banks now regulate their issues of paper?"—Ans. "By the plenty or scarcity of bank notes." "Then their issues bear a proportion to the issues of the Bank?" —Ans. "In my opinion they do."

"The Committee," Mr Bosanquet observes, "has not defined the sense in which they use the term excess of currency; I, therefore," he continues, "suppose it to be used in the Report in the sense in which it is used by Dr Smith, as denoting a quantity greater than the circulation of the country can easily absorb or employ." And in another place, "As the fact is not *apparent*, at least (I mean that there is more paper than the country can easily absorb and employ) the *onus probandi* seems to lie on the Committee."

This is not the sense in which I consider the Committee to use the word *excess*. In that sense there can be no excess whilst the Bank does not pay in specie, because the commerce of the country can easily employ and absorb any sum which the Bank may send into circulation. It is from so understanding the word excess that Mr Bosanquet thinks the circulation cannot be excessive, because the commerce of the country could not easily employ it. In proportion as the pound sterling becomes depreciated will the want of the nominal amount of pounds increase, and no part of the larger sum will be excessive, more than the smaller sum was before. (By excess, then, the Committee must mean the difference in amount of circulation between the sum actually employed, and that sum which would be employed if the pound sterling were to regain its bullion value.) This is a distinction of more consequence than at first sight appears, and Mr Bosanquet was well aware that it was in this sense that it was used by me. He has been so obliging as to express my meaning in a passage where it appeared obscure; he has done it most ably, and completely understood the sense in which I used the words *an excessive circulation*. He observes upon the passage, page 86, "If this interpretation be adopted, it will be nearly useless to search for, and inquire after, excess of paper as a fact; we must be content to admit proof of its existence from its effects, and our attention must be directed to ascertain depreciation, or an increased price of commodities, solely arising out of, and occasioned by, the increased amount of the circulating medium." I do most unequivocally admit, that whilst the high price of bullion and the low exchanges continue, and whilst our gold is undebased, it would to me be no proof of our currency not being depreciated if there were only 5 millions of bank notes in circulation. When we speak, therefore, of an excess of bank notes, we mean that portion of the amount of the issues of the Bank, which can now

circulate, but could not, if the currency were of its bullion value. When we speak of an excess of country currency, we mean a portion of the amount of the country bank notes, which cannot be absorbed in the circulation, because they are exchangeable for, and are depreciated below, the value of bank notes.

This distinction appears to me to be an answer to Mr Bosanquet's objection, where he says, "but does it follow that the country bank paper, if issued to excess, will not be checked, because there is already more bank paper in circulation than the country can absorb and employ? If it be admitted, and how can it be denied? that the price of commodities must everywhere rise or fall in proportion to the increase or diminution of the money which circulates them; must not an increase of London money increase the prices of commodities in London only, unless a part of that money can be employed in the country circulation? and, on the contrary, must not the same rise take place in the country prices only if the country currency be increased, and if it be not convertible into London currency; or cannot circulate in London? If the case put by Mr Bosanquet be supposed possible, that the London currency only should be increased, and that London bank notes were not current in the country, then we should have an exchange with the country in the same manner as we have with Hamburgh or France, and that exchange would show that London paper was, on a comparison with country paper, depreciated.

If each of the country banks were protected by a restriction act from paying their notes in any other medium than their own paper, and if these notes were each confined to the circulation of their particular districts, they would each be depreciated on a comparison with bullion, in proportion as their amount exceeded the amount of money of bullion value which would have circulated in those districts if they had not been protected by such an act. The notes of one bank might be depreciated 5 per cent., of another 10, another 20, and so on. The restriction bill being confined to the Bank of England alone, and all other notes being convertible into their notes, country notes can never be issued in a greater proportion than those of the London Bank. Mr Bosanquet thinks, "I was bound to show that some physical impossibility obstructs the increase of bank notes at the expense of country notes, and *vice versa*, before I assume that an increase of bank notes must produce an increase of country notes."

From what I have already said, I think it will appear that, unless London notes are employed in the circulation of places where they were not before admitted, there is, if not a physical, at least an *absolute* impossibility, that an increase of Bank of England notes should not either be followed by an increase of country bank notes, or by a depreciation in the value of the London notes as compared with the country notes.

But how is this effected? How do the issues of the Bank produce

an increase in the country circulation? Mr Gilchrist has informed us. Reverse the case which he has supposed, and it would stand thus:—If the Bank of England increase their issues, the country banks might increase theirs: the prices of commodities being raised in London, whilst those of the country continued as before, money would be wanted in the country to purchase in the cheaper market; bills would be demanded for that purpose upon the country, which would therefore sell at a premium, or, in other words, bank notes would be depreciated below the value of the country currency. Such demand would cease as soon as the country currency were either brought up to the level of the London currency, or the London currency reduced to the level of the country currency.

I should not have thought that a principle so clear could have been questioned: the value of our gold currency formerly regulated the value of a pound sterling all over England. If gold became abundant from the discovery of new mines, and more money were therefore employed in the circulation of London, a proportionate increase must necessarily have taken place in the country to preserve the equality of prices. Bank notes perform now the same office; and if they be increased, the country currency must either partake in the use of the additional quantity, or the country banks must make a proportional increase to their issues. It is not difficult, under such circumstances, to determine what will be the choice of the country banks.

The Committee having stated, that "If an excess of paper be issued in a country district, while the London circulation does not exceed its due proportion, there will be a local rise in prices in that country district, but prices in London will remain as before; that those who have the country paper will prefer buying in London, where things are cheaper, and will therefore return that country paper upon the banker who issued it, and will demand of him Bank of England notes, or bills upon London; and that thus the excess of country paper being returned upon the issuers for Bank of England paper, the quantity of the latter necessarily and effectually limits the quantity of the former."

Mr Bosanquet asks, "Does this follow as a consequence? Admitting the accuracy of the reasoning, under the supposition that the country notes were actually paid in bank notes, does it apply under the admission that they are paid by bills on London, since, as we have already shown, the payment of these has very little reference to bank notes?" Most certainly it does. Suppose the excess of country paper to be 1000*l.*, and in consequence 1000*l.* in Bank of England notes is demanded of the issuer, and sent up to London for the purchase of goods, will not 1000*l.* be added to the London circulation, whilst that of the country is diminished 1000*l.* Now, suppose that instead of a Bank of England note of 1000*l.* a bill on London is given to the holder of the country note, this will as sufficiently answer his purpose of making a purchase in London;

but as a bill is only an order to A in London to pay to B in London, the London currency will remain as before, but the country currency will be reduced 1000*l.*

Now, the only difference in the two cases is this, that in the former 1000*l.* was added to the London circulation, in the latter it continued at the same amount. But will not the country banker, having by the payment of the 1000*l.* Bank of England note diminished that deposit, which he thinks it necessary for the safety of his establishment to have by him, give directions to his correspondent, either by the sale of an exchequer bill, or in any other way that might be agreed upon, to send him Bank of England notes to the amount of 1000*l.*?

"If things are cheaper in Liverpool than in London, I shall prefer buying there; and if I have too many bank notes, I shall send them to Liverpool in payment,"—provided they can circulate there. If they can, Liverpool will partake with London in the increase of circulation; but it is not improbable that a Liverpool banker will find an opportunity of persuading the people of Liverpool that his note will answer their purposes as well as the Bank of England note;* he will, therefore, possess himself of it for one of his own, and will send it to London, thus will the circulation of Liverpool be increased by the issues of the Bank of England; and thus Mr Bosanquet is mistaken, when he observes that "they may restrict, but can never augment, one shilling in the circulation of the Liverpool banks." The Committee having "assumed as an axiom, that country bank paper is a superstructure raised on the foundation of the paper of the Bank of England," Mr Bosanquet asks where they have learned this? "They learned from Mr Stuckey," he continues, "a considerable and experienced banker in Somersetshire, that his houses regulate their issues by the assets they have in London to pay them, consisting of stock, exchequer bills, and other convertible securities, without much reference to the quantity of Bank of England notes or specie which they have, although they always keep a quantity of both to pay occasional demands. What is there in this evidence to sanction the opinion, that bank notes either generate or limit country notes?"

It may, I think, be shown, that the increased issues of the Bank would induce Mr Stuckey, or any other country banker, to increase the amount of his issues, although he kept precisely the securities which he has enumerated. There would be such a demand for country notes, in consequence of the alteration of prices in London, that a country banker would be enabled to obtain bills upon London in return for his notes. With the produce of the bills he might possess himself of a larger sum of stock, exchequer bills, &c., the

* The Committee asked Mr Stuckey, "Is it not your interest as a banker to check the circulation of Bank of England notes; and with that view do you not remit to London such Bank of England notes as you may receive beyond the amount which you may think it prudent to keep as a deposit in your coffers?" *Ans.* Unquestionably.

foundation being thus increased, the superstructure might be further raised.

The Committee could not have supposed that the Scotch Bank in the year 1763, when they reduced their circulation by giving bills at 40 days upon London, actually deposited bank notes, in the first instance, in the hands of their London correspondents. They might, if such were the case, have redeemed their notes at once with bank notes in Scotland. No; the Scotch Bank were situated as Mr Stuckey describes; they had securities of some sort in London, which they authorised their correspondents to turn into money in time to pay their bills. There was a transfer of money from A to B in London, and the Scotch note was withdrawn.

## CHAPTER VIII.

MR BOSANQUET'S OPINION—THAT YEARS OF SCARCITY AND TAXES HAVE BEEN THE SOLE CAUSE OF THE RISE OF PRICES, EXCESSIVE CIRCULATION NO CAUSE—CONSIDERED.

Mr Bosanquet, after having shown, as he imagines, the insufficiency of the arguments of the Committee, to prove that the Bank circulation is excessive, brings forward positive arguments to prove that it is not. The ground of these arguments is, the cause of an advance of prices which arises from years of scarcity, and increased taxation. He has quoted a passage from Dr Smith in support of this opinion, which I regard as in favour of the opinion which I hold on that subject.

"A prince," says Dr Smith, "who should enact that a certain proportion of his taxes should be paid in a paper money of any kind, might thereby give a certain value to this paper money, even though the time of its final discharge and redemption should depend altogether on the will of the prince. If the Bank which issued this paper were careful to keep the quantity of it always somewhat below what could easily be employed in this manner, the demand for it might be such as even to make it bear a premium, or sell for somewhat more in the market than the quantity of gold and silver for which it was issued."

Now, asks Mr Bosanquet, as the annual amount of taxes far exceeds the amount of bank notes, how can paper according to this principle be depreciated? But where does Dr Smith talk of the annual amount of taxes? It might as fairly be contended that the comparison of the amount of paper should be made with the amount of two or three years' taxes. I understand Dr Smith to mean, that if the quantity of paper does not exceed that amount, which can be wholly and solely employed in the payment of taxes, it will not be depreciated; he never could have maintained so extravagant a proposition as that which Mr Bosanquet ascribes to him. To try our paper circulation by this rule of Dr Smith, it should be proved that the daily payment of taxes is equal in amount to the whole of the bank notes in circulation. According to Mr Bosanquet's interpretation of this passage, as the amount of the total payments into the exchequer is 76,805,440*l.*, bank notes cannot become excessive or depreciated till they exceed that amount.

Who, on reading the passage, can believe that such was the fair meaning of Dr Smith's words?

When Mr Bosanquet talked of a premium having been given for bank notes, I conceived he meant a premium in gold or in silver; I can have no other idea of a premium: but it seems Mr Bosanquet meant that a premium was given for them in paper more depreciated than themselves; in exchequer bills or banker's checks. Now, both of these securities being payable in bank notes at some future period, may, on some occasions, be less valuable than the notes which are wanted for immediate use, and which will sufficiently account for the preference. An assignat at a discount of 50 per cent. might have borne such a premium as Mr Bosanquet supposes.

One of the proofs with which Mr Bosanquet has favoured his readers of the very small increase that has taken place in the actual amount of bank notes, compared with the business which it has to perform, is, that the increase in the amount of currency since the year 1793 is 3 millions, and the increased amount of payments to Government alone above 60 millions.

In this calculation the addition to the country currency is wholly omitted. I shall endeavour presently to show, that it does not by any means necessarily follow that this enormous increase in the amount of taxes should have made any increase of circulation necessary, unless during the same time there had been an increase of commerce and trade.

At present it will be sufficient for me to remark, that had Mr Bosanquet made a comparative statement from the year 1793 to 1797, he would have possibly seen reason to doubt the accuracy of his *theory* on this subject. During those four years there must have been a considerable addition to the taxes; and, therefore, on Mr Bosanquet's principles, there should also have been an addition to the circulating medium, which does not appear to be the fact. It is not probable that any very great addition was made to the amount of the coin in circulation; on the contrary, from the very great coinage in 1797 and 1798, the metallic currency must, in 1797, have been at an unusually low level. And it appears from the account delivered in to the Lords' Committee, that the amount of bank notes in circulation

| | | | |
|---|---|---|---|
| In the year 1793 amounted to | . | . | L.11,451,180 |
| ... 1796 it varied from | . | . | 10,713,460 |
| | | to | 9,204,500 |

and in 1797 the general average, even after the restriction, did not exceed the amount of 1793.

The amount of bank notes in circulation in 1803 was nearly 18 millions. In 1808 it was not more; and yet no one will deny that in those five years our taxes and expenses must have been greatly augmented. Thus, then, it appears that considerable additions may be made to the taxes of a country without a corresponding increase in its circulating medium.

The Committee is charged by Mr Bosanquet with not having sufficiently considered the effect of taxation on the prices of commodities; and it is implied in that accusation, that they have exclusively attributed the rise in the prices of commodities to the depreciation of the currency. The Committee would indeed have been highly deserving of censure, if they had held out hopes to the people of this country that the reformation of the currency could possibly reduce the prices of commodities to that level at which they were previously to the restriction bill. The effect produced on prices by the depreciation has been most accurately defined, and amounts to the difference between the market and the Mint price of gold. An ounce of gold coin cannot be of less value, the Committee say, than an ounce of gold bullion of the same standard; a purchaser of corn, therefore, is entitled to as much of that commodity for an ounce of gold coin, or 3*l.* 17s. 10½d., as can be obtained for an ounce of gold bullion. Now, as 4*l.* 12s. of paper currency is of no more value than an ounce of gold bullion, prices are actually raised to the purchaser 18 per cent., in consequence of his purchase being made with paper instead of coin of its bullion value. Eighteen per cent. is, therefore, equal to the rise in the price of commodities, occasioned by the depreciation of paper. All above such rise may be either traced to the effects of taxation, to the increased scarcity of the commodity, or to any other cause which may appear satisfactory to those who take pleasure in such inquiries.

The theory which Mr Bosanquet has advanced with respect to taxation, and the effects which it produces on the amount of circulating medium, is exceedingly curious, and is a proof that even practical men are sometimes tempted to wander from the sober paths of practice and experience, to indulge in speculations the most wild, and dreams the most chimerical.

Mr Bosanquet observes, there are two causes of the augmentation of prices in Great Britain since the date of the restriction bill. 1st, "The altered state of the corn trade, and the scarcity arising out of it, in 1800 and 1801." 2dly, "The increase of taxes since the commencement of the war, in 1793."

That the scarcity of corn, and the expenses which have attended its importation, must have produced some rise in the prices of commodities, I do most readily admit. But is it a self-evident proposition—is it, as Mr Bosanquet lays it down, an axiom in political economy, that the effect of taxation is to raise the prices of commodities in the full amount of the taxes levied? Does it by any means follow, because taxes, since the year 1793, have increased to the enormous amount of 48 millions, that all that sum must have gone to the increase of the prices of commodities, and that, therefore, this fact alone will account for a rise of 50 per cent. on the prices of 1793? Does it follow that every person, excepting the stockholder, has the power of indemnifying himself for the taxes which he pays?

Does it make no difference, for example, whether the tax be laid on consumable commodities, or whether it be such a tax as an income tax, assessed taxes, and twenty others that may be named? Do they all tend to raise the prices of commodities? And is every contributor but the stockholder enabled to rid himself of the burthen? If this argument were correct, it would appear that the whole weight of taxation falls exclusively on the stockholders; that the whole annual augmentation since 1793, amounting now to 53 millions, must have come from their pockets. Their taxes must at this rate have exceeded their income, because they exceeded the interest of the national debt. This I do not consider very correct doctrine; and, if true, it would not make stockholders very much enamoured with that species of property. Wars would, on such a principle, never impoverish, and the sources of taxation could never be exhausted.

To me, however, it appears convincingly certain that neither the income tax, the assessed taxes, nor many others, do in the least affect the prices of commodities.

Unfortunate, indeed, would be the situation of the consumer if he had to pay additional prices for those commodities which were necessary to his comfort, after his means of purchasing them had been by the tax considerably abridged.

The income tax, were it fairly imposed, would leave every member of the community in the same relative situation in which it found him. Each man's expenses must be diminished to the amount of his tax; and if the seller would wish to relieve himself from the burthen of the tax by raising the price of his commodity, the buyer, for the same reason, would wish to buy cheaper. These contending interests would so exactly counteract each other, that prices would undergo no alteration. The same observations are applicable to the assessed taxes, and to all other taxes which are not levied on commodities. But, if the tax should in its operation be unequal,—if it should fall particularly heavy on one class of trade, the profits of that trade would be diminished below the general level of mercantile profits, and those engaged in it would either desert it for one more profitable, or they would raise the price of the commodities in which they dealt, so as to bring it to produce the same rate of profits as other trades.

Taxes on commodities would certainly raise the price of the commodity taxed to the full amount of the tax. The price for such commodities may be considered as divided into two portions; one portion, its original and natural price, and the other a tax for the liberty of consuming it. If this tax, again, were laid on a commodity, the consumption of which, by each individual, was in exact proportion to his income, no other commodity would rise but the one taxed; but if it were not in such proportion, those who paid more than their just portion would demand an increased price for the commodity in which they dealt, and, by obtaining it, the society

would be put in the same relative situation in which they were before placed.

If, instead of the tax being laid on the commodity, each individual were to pay no more for the commodity than the original price, and were to pay the amount of the tax at once to Government for a license to consume it, it would act precisely as the assessed taxes do; there would be only a partial rise in the prices of some commodities to compensate the inequality which, in spite of the best wishes of the legislature, must accompany every tax.

If this view of the effect of taxation be correct, it will follow that Mr Bosanquet's estimate, that 48 millions has been actually added to the prices of commodities in consequence of taxation since the year 1793, and that such addition will sufficiently account for the rise in the prices of commodities, without having recourse to the depreciation of the circulating medium as the cause, is a false theory, neither supported by reason nor probability.

From these statements Mr Bosanquet has deduced another consequence, viz. that—

As the value of commodities has been raised 48 millions since 1793, and the circulation only increased 3 millions, such increase cannot be called excessive.*

Although, in the preceding statement, I have conceded to Mr Bosanquet that, in consequence of some of our taxes, the prices of commodities will be increased, it does not appear necessarily to follow that more money will be requisite to circulate them.

That amount of money which is received by Government in the shape of taxes, is taken from a fund which would otherwise have been expended on consumable commodities.

In proportion as the taxes are great must the expenses of the people diminish. If my income amounts to 1000*l.*, and Government requires 100*l.* in taxes from me, I shall have but 900*l.* to expend on such necessaries and comforts as are requisite for the use of my family. If Government take 200*l.*, I shall have but 800*l.* for such purposes. Now, as the amount of money actually expended by Government and by me cannot exceed 1000*l.*, no additional circulating medium would, I think, be required, although the taxes were 50 per cent. of each man's income. If the tax were laid upon bread, and, in consequence, the wages of labour were raised, the tax would eventually fall on all those who consumed the produce of the labour of man. It would make no real difference to these consumers if they had at once paid the amount of such tax into the exchequer, or if it had gone through the circuitous channel which it would then take.

Nor would any additional sum be required. Government would

* If we add to these 3 millions the increase in the country circulation, and bear in mind the economy in the use of circulating medium, so ably and so clearly explained by Mr Bosanquet, it would appear to me that, granting all the facts for which Mr Bosanquet contends, the circulating medium has increased in an undue proportion.

be in the daily receipt of a portion of the taxes, whether it was paid to the exciseman or to the tax-gatherer, and their expenses in the one case would be precisely the same as in the other. Whatever the Government expended would cause a diminished expenditure in the people to the same amount: the same amount of commodities would be circulated, and the same money would be adequate to their circulation.

This is on the supposition that the people were sufficiently prudent or sufficiently rich to pay all the taxes from their annual income, and were not tempted or compelled to diminish their capital to satisfy the calls of Government. If capital were, however, diminished, the aggregate amount of productions would also diminish; and if the money which was before necessary for their circulation were to continue of the same amount, it would bear a larger proportion to the goods, and it might therefore be expected that commodities would rise; but we must not forget that the amount of money in a country is regulated by its value, and as its value would in this case be diminished, it would become relatively excessive to the money of other countries, and the excess would therefore be exported.

When we talk of a scarcity of corn, and a consequent increase of price, it is naturally concluded, because its value is doubled, that double the value of money will be necessary to circulate it, but this is by no means obvious or necessary. If double the money be necessary, there should be an equal quantity of corn at double the usual price,—but it is because there is a diminished quantity of corn that its price is doubled.

If the commerce of a country increases, that is to say, if by its savings it is enabled to add to its capital, such country will require an additional amount of circulating medium; but, under all circumstances, the currency ought to retain its bullion value; that is the only sure test by which we may know that it is not excessive

## CHAPTER IX.

### MR BOSANQUET'S OPINION, THAT EVIL WOULD RESULT FROM THE RESUMPTION OF CASH PAYMENTS, CONSIDERED

To conclude, Mr Bosanquet is persuaded that much evil will ensue from the resumption of cash payments, and he cannot anticipate any improvement in the course of exchange, or any fall in the price of bullion from a reduction of the circulation, unless our imports are diminished and our exports increased.

To me, however, it appears perfectly clear, that a reduction of bank notes would lower the price of bullion and improve the exchange, without in the least disturbing the regularity of our present exports and imports. It would neither enable us to export or import gold in any way different to what is now actually taking place. Our transactions with foreigners would be precisely the same, we should possess only a more valuable money of the same name; and instead of being credited by Hamburgh for a depreciated pound sterling, which will only purchase 104 grains of gold, at the rate of 28 Flemish schillings, we should, by restoring our pound sterling to its true bullion value, viz. 123 grains, have a credit at the rate of 34 schillings. The difference, however, of 6 schillings, which would thus appear in our favour, would be an advantage in name and appearance solely. No mistake would be greater than to suppose there was in it any real advantage.

If, by a reduction of bank notes, they were so raised in value as to be above the value of gold bullion, we should then interfere with the real course of exchange; we should disturb the present equilibrium of imports and exports; and we should cause an importation of bullion, or, in the language of merchants, a favourable balance of trade.

If Mr Bosanquet's view of our affairs were indeed correct, gloomy would be our prospects. Obliged to support a great foreign expenditure, "to import articles with which we cannot dispense," and in return for which nothing but gold will be accepted, we might almost calculate the period at which the contest must terminate from a want of this most essential commodity. For a balance of payments so enormous as he calculates, gold could not be found in this country for one twelvemonth; and if our goods can nowhere purchase it, how hopeless must be our condition!

For my part, however, I have no such apprehensions. I am persuaded that our foreign expenditure is neither paid with gold nor with bills of exchange,—that it must eventually be discharged with the produce of the labour and industry of our people.

It is only to a blind perseveranee in our present system of circulation that I look with alarm,—a system which is gradually undermining our resources, and the inconveniences and evils of which, in the language of the Committee, "if not checked, must at no great distance of time work a praetical conviction upon the minds of all those who may still doubt their existence; but even if their progressive increase were less probable, the integrity and honour of Parliament are concerned not to authorise longer than is required by imperious neeessity the continuance in this great commercial country of a system of circulation in which that natural check or control is absent, which maintains the value of money, and, by the permanency of that common standard of value, sceures the substantial justiee and faith of monied contracts and obligations between man and man."

May we be permitted to hope, that what an enlightened Committee has so happily begun is a pledge of what will be accomplished by the wisdom of Parliament?

# APPENDIX.

After the preceding sheets were sent to the press, I read the supplementary observations of Mr Bosanquet, annexed to the second edition of his pamphlet. I shall have but few remarks to make on them.

1st, From what I have already said, it may be seen that I deny the accuracy of all Mr Bosanquet's calculations concerning the exchange with Hamburgh. Those calculations are made on the assumption of a fixed invariable par, whilst the true par, on which they should have been made, is subject to all the variations to which the relative value of gold and silver is exposed. These two metals having varied no less since the year 1801 than from $6\frac{1}{2}$ per cent., under the Mint proportions, to 9 per cent. above those proportions; calculations made on such a principle may involve errors to no less an amount than $15\frac{1}{2}$ per cent. 2dly, The argument attempted to be founded on the fact of the increase or diminution in the amount of bank notes not having invariably been accompanied by a fall or rise in the exchange, or by a rise or fall in the price of bullion, is of no avail against a theory which admits that the demand for circulating medium is subject to continual fluctuations, proceeding from an increase or decrease in the amount of capital and commerce, from a greater or less facility which at one period may be afforded to payments by a varying degree of confidence and credit, and, in short, which supposes that the same commerce and payments may require very different amounts of circulating medium. An amount of bank notes, which at one time may be excessive, in the sense in which I use that term, and which may therefore be depreciated, may, at another, be barely sufficient for the payments which it may have to perform, barring the effect of a temporary increase in its value above that of the bullion which it represents. It will therefore be useless to admit or to deny the correctness of the grounds on which Mr Bosanquet's calculation of the amount of country paper in circulation is founded. Those facts do not, in my opinion, bear upon the subject in dispute. Whether the paper currency be 25 or 100 millions, I consider it equally certain that it is excessive, because I am not aware of any causes but excess, or a want of confidence in the issues of the paper (which I am sure does not now exist), which could produce such effects as we have for a *considerable time** witnessed.

Mr Bosanquet has thrown the inferences which he wishes to be drawn from the facts he has newly brought forward into the shape of four problems; the solution of which, upon the principles of the Committee, he presumes to be impossible. I hope I have already shown that his facts fall abundantly short of proving the points which he makes to rest upon them, and I think the difficulty will not be great in giving him even a solution of his problems in perfect conformity with the principles of the Committee.

The first problem is, "The fall of the exchange, from an average of 6 per cent. in favour from 1790 to 1795, to 3 per cent. below par in 1795 and 1796, with an equal circulation of 11 millions of Bank paper, convertible into specie on demand, and the advance of the exchange to 11 per cent. above par, on average in 1797 and 1798, the circulation being increased to 13 millions, and not so convertible."

The reader will perceive that this problem has already received its solution in the body of the work. The exchanges are not correctly stated, and no one denies that the exchanges may rise and fall from many causes.

* Mr Bosanquet has remarked as incorrect my having used the words "length of time" in reference to a discount on bank notes, because Mr Mushet's tables did not indicate a very unfavourable exchange for more than a year before I wrote, in December 1809. We should once have thought a year a *considerable time*, when speaking of a discount on bank notes; but as I have constantly maintained that the high price of bullion was the test on which I most relied for the proof of depreciation, and as the price of gold has not been under the Mint price for about ten years, the correctness of my conclusion cannot, I think, on my principles, be questioned.

It has been proved that the demand for gold for the Mint, and for silver for the East Indies, in the years 1797 and 1798, had its natural effect on the exchange, and was not counteracted by an extravagant issue of paper currency. The gold was required to fill up the exhausted coffers of the Bank; it was therefore not sent into circulation; and the addition of 2 millions in bank notes served only to supply the vacuum which the hoarding of money had occasioned; so that there was no real increase to the circulation of those years.

The second problem is, "The fall of the exchange to 6 per cent. below par, and gold 9 per cent. above the Mint price in 1800 and 1801, the Bank circulation rather above 15 millions, and the advance to 3 per cent. above par, on average of six years, from 1803 to 1808, and gold nearly at the Mint price, with an augmented circulation of 17 to 18 millions."

Besides the effects from a varying degree of commerce and credit, it should be recollected that whilst our circulation consisted partly of gold and partly of paper, the effect of an increased issue of paper, both on the exchanges and the price of bullion, was corrected, after a sufficient interval, by the exportation of the coin. That resource has been for some time lost to us.

The third problem, viz. "The fall of the exchange, from 5 per cent. above par, in July 1808, to 10 per cent. below par, in June 1809, the Bank circulation being the same in both instances;" is of easy solution. I cannot find the document from which Mr Bosanquet has stated that the amount of bank notes was the same in July 1808 as in June 1809; but, admitting its correctness, are they fair subjects of comparison? One period is immediately after the payment of the dividends, the other immediately before. In January and July 1809 there was no less an increase in the amount of bank notes, after the payment of the dividends, than 2,450,000*l.*, and in the January following, 1,878,000*l.*

I am not disposed to contend that the issues of one day, or of one month, can produce any effect on the foreign exchanges; it may possibly require a period of more permanent duration; an interval is absolutely necessary before such effects would follow. This is never considered by those who oppose the principles of the Committee. They conclude that those principles are defective, because their operation is not immediately perceived. But what are the facts respecting the circulation of bank notes in the years 1808 and 1809? There are only three returns of their amount in the year 1808 made to the Bullion Committee. Let us compare them with the returns for the same periods in 1809, and I think my readers will agree with me, that these facts will rather confirm than appear to be at variance with the principles of the Committee.

| | Amount of bank notes In 1808. | | Amount of bank notes In 1809. |
|---|---|---|---|
| 1 May . . | 17,491,900 | 1 May . . | 18,646,880 |
| 1 August . | 17,644,670 | 1 August . | 19,811,330 |
| 1 November | 17,467,170 | 1 November | 19,949,290 |

As for the fourth problem, viz. "The gradually increasing price of commodities, during the American war, when the circulation was gold, and during the six years from 1803 to 1808, when the exchange was in favour," where has it been disputed that there are not other causes besides the depreciation of money which may account for a rise in the prices of commodities? The point for which I contend is, that when such rise is accompanied by a permanent rise in the price of that bullion which is the standard of currency, then to the amount of that rise is the currency depreciated. During the American war the rise in the prices of commodities was not attended with any rise in the price of bullion, and was therefore not occasioned by a depreciation of the currency.

We are now, for the first time, left to doubt whether the principles of the Committee, against which Mr Bosanquet in the body of his work had so strongly contended, are really at variance with his own. We are now told, not that the theory is erroneous, but "that the facts must be established before they can be reasoned upon;" "and that the importance of those facts would in no degree be lessened even by an unreserved admission of the accuracy of the principles assumed." Does this declaration accord with Mr Bosanquet's conclusions? Certain principles are brought forward by the Bullion Committee, and which, if true, prove the fact of the depreciation of the currency. Your principles are plausible, and reason appears to sanction them, says Mr Bosanquet; but here are facts to prove that they are inconsistent with past experience; and he further observes from Paley, "that when a theorem is proposed to a mathematician

the first thing he does with it is to try it on a simple case; if it produce a false result, he is sure there must be some error in the demonstration." "The public must proceed in this way with the Report, and submit its theories to the test of fact." Can, then, Mr Bosanquet be consistent in contending "that the importance of what, in his preceding pages, he had offered to the public would be in no degree lessened even by an unreserved admission of the accuracy of the principles assumed?"

If the theory of the Committee is allowed to be accurate on the one hand, and Mr Bosanquet's facts are accurate on the other, what follows? Either that Mr Bosanquet agrees with the Committee, or that his facts are totally inapplicable to the question. One other conclusion there is, but one which I have no intention to ascribe to Mr Bosanquet.—that there may be a theory on the one side, and facts on the other; both true, and yet inconsistent.

As for Dr Paley's test of trying the Committee's theory by a simple case, Mr Bosanquet might have tried it by a thousand, and would have found it accurately to correspond. Had he employed his leisure and ingenuity in tracing its application to the thousands of cases with which it accords, instead of hunting for two or three cases *seemingly* contradictory, and adopting them with fond credulity, he would have probably arrived at more just conclusions.

Mr Bosanquet calls in question the accuracy of the following proposition of Mr Huskisson, "that if one part of the currency of a country (provided such currency be made either directly or virtually legal tender according to its denomination) be depreciated, the whole of that currency, whether paper or coin, *must* be equally depreciated."

The fact brought forward by Mr Bosanquet, that the "extraordinary depreciation of the silver coin in the reign of King William did not depreciate the gold; that, on the contrary, the guinea, worth 21 perfect shillings, passed currently for 30s.," does not prove the principle advanced by Mr Huskisson to be at variance with experience, because gold was not then the current coin; it was not, either *directly* or *virtually* legal tender; nor was it estimated at a fixed value by public authority: it passed in all payments as a piece of bullion of known weight and fineness. If by law it could not have passed for more than 21s. of the debased silver currency, it would, whilst in the state of coin, have been equally debased with the 21s. for which it would have exchanged. If guineas were now to be considered as a commodity, and were not by law prohibited from being exported or melted, they might pass in all payments at 24s. or 25s., whilst the bank note continued of its present value.

Neither is the following principle of Mr Huskisson, from which Mr Bosanquet dissents, *contrary to authority*, "that if the quantity of gold, in a country whose currency consists of gold, should be increased in any given proportion, the quantity of other articles and the demand for them remaining the same, the value of any given commodity measured in the coin of that country would be increased in the same proportion." Mr Huskisson does not question, as Mr Bosanquet supposes, the truth of the principle advanced by Dr Adam Smith, "that the increase in the quantity of the precious metals, which arises in any country from an increase of wealth, has no tendency to diminish their value;" but says, that if the quantity of the precious metals increases in any country, whilst its wealth does not increase, or whilst its commodities remain the same in quantity, then will the value of the gold coin of such country diminish, or, in other words, goods will rise in price. Mr Bosanquet himself, in the argument relating to the mine, has admitted that such would be the effect. To this passage from Mr Huskisson's book, however, I have an objection to offer, because he adds, that an increase in the prices of commodities would take place (page 5) under the circumstances supposed, "although no addition should actually be made to the coin of the country." I hold it as a conclusion which will not admit of dispute, that if neither commodities, nor the demand for them, nor the money which circulates them, suffer either increase or diminution, prices must continue unaltered whatever quantity of gold or silver may exist in the state of bullion in such country.* It is hardly necessary to remark, that the case is wholly hypothetical, and is, indeed, impossible. There can be no great addition to the bullion of a country, the currency of which is of its standard value, without causing an increase in the quantity of money.

I confess I was not a little surprised by the next point brought forward by Mr Bosanquet, and I have no doubt it must have excited equal astonishment in many of his readers. Having contended throughout his work that bank notes were not depre-

* It is to be understood that I am supposing no increased or diminished *confidence* operating so as to give a diminished or increased value to the coin.

ciated as compared with gold coin, that the same rise in the price of gold might have taken place, and actually had, on some occasions, taken place, whilst our currency consisted partly of gold, and partly of paper convertible into gold, at the will of the holder; after denying that there was any point of contact between gold for exportation and gold in coin, and that it was for want of such contact that its price had risen, we are now seriously told by Mr Bosanquet that, "applying to this subject the most approved theories, he inclines to the belief that gold, since the new system of the Bank of England payments has been fully established, has *not*, in truth, continued to be the measure of value. Bank notes," he maintains, "have, since 1797, unquestionably become the measure of commerce, and the money of account, and it is on these grounds that he considers the proposition respecting the price of gold, on which so much reliance is placed, as one of those which, though he admits the principle, he hesitates at the application." Whether the Bank Directors, or others who have so confidently asserted that, admitting gold to be the standard, its high price did not prove the depreciation of the currency, will be pleased with a defence on such principles, which yields all for which the Committee contend, it is not for me to inquire. That gold is no longer in practice the standard by which our currency is regulated is a truth. It is the ground of the complaint of the Committee (and of all who have written on the same side) against the present system.

The holder of money has been injured, inasmuch as there is no standard reference by which his property can be protected. He has suffered a loss of 16 per cent. since 1797, and there is no security for him that it may not shortly be 25, 30, or even 50 per cent. more. Who will consent to hold money or securities, the interest on which is payable in money, on such terms? There is no sacrifice which a man holding such property should not make, to secure to himself some provision for the future whilst such a system is avowed. Mr Bosanquet has, in these few words, said as much in favour of the repeal of the restriction bill as all the writers, all the theorists, have advanced since the discussion of this subject commenced. What, then, does Mr Bosanquet admit that we have no standard because it is no longer gold? Let us hear what he says: "If a pound note be the *denomination*, it will, of course, be asked what is the standard?

"The question is not easy of solution. But, considering the high proportion which the dealings between Government and the public bear to the general circulation, it is probable the standard may be found in those transactions; and it seems not more difficult to imagine that the standard value of a one pound note may be the interest of 33*l.* 6s. 8d.—3 per cent. stock, than that such standard has reference to a metal, of which none remains in circulation, and of which the annual supply, even as a commodity, does not amount to one-twentieth part of the foreign expenses of Government in one year."

So then we *have* a standard for a pound bank note; it is the interest of 33*l.* 6s. 8d. —3 per cent. stock. Now, in what medium is this interest paid? because *that* must be the standard. The holder of 33*l.* 6s. 8d. stock receives at the bank a one pound note. Bank notes are, therefore, according to the theory of a *practical* man, the standard by which alone the depreciation of bank notes can be estimated!

A puncheon of rum has 16 per cent. of its contents taken out, and water poured in for it. What is the standard by which Mr Bosanquet attempts to detect the adulteration? A sample of the adulterated liquor taken out of the same cask.

We are next told, that "if the Bank really possess a large stock of gold, or only to the extent of 6 or 7 millions, the best use they can make of it is to call in all the notes under 5*l.*, and not re-issue any of this description."

How could bankers and manufacturers be enabled to effect their small payments if the gold, thus partially issued, were at the present exchange and price of bullion to be either exported or melted? If the Bank did not issue small notes, and they could not procure guineas for large ones, they would be obliged to cease such payments altogether. The more I have reflected on this subject, the more convinced I am that the evil admits of no other safe remedy but a reduction in the amount of bank notes.

AN

# ESSAY

ON THE

INFLUENCE OF A LOW PRICE OF CORN ON THE PROFITS OF STOCK

SHEWING THE

INEXPEDIENCY OF RESTRICTIONS ON IMPORTATION:

WITH

REMARKS ON MR MALTHUS'S TWO LAST PUBLICATIONS:

"AN INQUIRY INTO THE NATURE AND PROGRESS OF RENT;" AND "THE GROUNDS OF AN OPINION ON THE POLICY OF RESTRICTING THE IMPORTATION OF FOREIGN CORN."

SECOND EDITION.

LONDON:

1815.

# INTRODUCTION.

In treating on the subject of the profits of capital, it is necessary to consider the principles which regulate the rise and fall of rent, as rent and profits, it will be seen, have a very intimate connexion with each other. The principles which regulate rent are briefly stated in the following pages, and differ in a very slight degree from those which have been so fully and so ably developed by Mr Malthus in his late excellent publication, to which I am very much indebted. The consideration of those principles, together with those which regulate the profit of stock, have convinced me of the policy of leaving the importation of corn unrestricted by law. From the general principle set forth in all Mr Malthus's publications, I am persuaded that he holds the same opinion, as far as profit and wealth are concerned with the question; but, viewing, as he does, the danger as formidable of depending on foreign supply for a large portion of our food, he considers it wise, on the whole, to restrict importation. Not participating with him in those fears, and perhaps estimating the advantages of a cheap price of corn at a higher value, I have come to a different conclusion. Some of the objections urged in his last publication—"Grounds of an Opinion," &c., I have endeavoured to answer; they appear to me to be unconnected with the political danger he apprehends, and to be inconsistent with the general doctrines of the advantages of a free trade, which he has himself, by his writings, so ably contributed to establish.

# ESSAY

ON THE

# INFLUENCE OF A LOW PRICE OF CORN ON THE PROFITS OF STOCK.

---

Mr Malthus very correctly defines "the rent of land to be that portion of the value of the whole produce which remains to the owner, after all the outgoings belonging to its cultivation, of whatever kind, have been paid, including the profits of the capital employed, estimated according to the usual and ordinary rate of the profits of agricultural stock at the time being."

Whenever, then, the usual and ordinary rate of the profits of agricultural stock, and all the outgoings belonging to the cultivation of land, are together equal to the value of the whole produce, there can be no rent.

And, when the whole produce is only equal in value to the outgoings necessary to cultivation, there can neither be rent nor profit.

In the first settling of a country rich in fertile land, and which may be had by any one who chooses to take it, the whole produce, after deducting the outgoings belonging to cultivation, will be the profits of capital, and will belong to the owner of such capital, without any deduction whatever for rent.

Thus, if the capital employed by an individual on such land were of the value of 200 quarters of wheat, of which half consisted of fixed capital, such as buildings, implements, &c., and the other half of circulating capital,—if, after replacing the fixed and circulating capital, the value of the remaining produce were 100 quarters of wheat, or of equal value with 100 quarters of wheat, the neat profit to the owner of capital would be 50 per cent., or 100 profit on 200 capital.

For a period of some duration the profits of agricultural stock might continue at the same rate, because land equally fertile and equally well situated might be abundant, and, therefore, might be cultivated on the same advantageous terms, in proportion as the capital of the first and subsequent settlers augmented.

Profits might even increase, because, the population increasing at a more rapid rate than capital, wages might fall; and, instead of the value of 100 quarters of wheat being necessary for the circu-

lating capital, 90 only might be required, in which case the profits of stock would rise from 50 to 57 per cent.

Profits might also increase, because improvements might take place in agriculture, or in the implements of husbandry, which would augment the produce with the same cost of production.

If wages rose, or a worse system of agriculture were practised, profits would again fall.

These are circumstances which are more or less at all times in operation—they may retard or accelerate the natural effects of the progress of wealth, by raising or lowering profits—by increasing or diminishing the supply of food, with the employment of the same capital on the land.*

We will, however, suppose that no improvements take place in agriculture, and that capital and population advance in the proper proportion, so that the real wages of labour continue uniformly the same;—that we may know what peculiar effects are to be ascribed to the growth of capital, the increase of population, and the extension of cultivation, to the more remote and less fertile land.

In this state of society, when the profits on agricultural stock, by the supposition, are 50 per cent., the profits on all other capital, employed either in the rude manufactures common to such a stage of society, or in foreign commerce, as the means of procuring in exchange for raw produce those commodities which may be in demand, will be also 50 per cent.†

If the profits on capital employed in trade were more than 50 per cent., capital would be withdrawn from the land to be

* Mr Malthus considers, that the surplus of produce obtained in consequence of diminished wages, or of improvements in agriculture, to be one of the causes to raise rent. To me it appears that it will only augment profits.

"The accumulation of capital, beyond the means of employing it on land of the greatest natural fertility, and the greatest advantage of situation, must necessarily lower profits; while the tendency of population to increase beyond the means of subsistence must, after a certain time, lower the wages of labour.

"The expense of production will thus be diminished, but the value of the produce, that is, the quantity of labour, and of the other products of labour besides corn, which it can command, instead of diminishing, will be increased.

"There will be an increasing number of people demanding subsistence, and ready to offer their services in any way in which they can be useful. The exchangeable value of food will therefore be in excess above the cost of production, including in this cost the full profits of the stock employed upon the land, according to the actual rate of profits at the time being. And this excess is rent."—*An Inquiry into the Nature and Progress of Rent*, page 18.

In page 19, speaking of Poland, one of the causes of rent is again attributed to cheapness of labour. In page 22 it is said that a fall in the wages of labour, or a reduction in the number of labourers necessary to produce a given effect, in consequence of agricultural improvements, will raise rent.

† It is not meant, that strictly the rate of profits on agriculture and manufactures will be the same, but that they will bear some proportion to each other. Adam Smith has explained why profits are somewhat less on some employments of capital than on others, according to their security, cleanliness, and respectability, &c., &c.

What the proportion may be, is of no importance to my argument, as I am only desirous of proving that the profits on agricultural capital cannot materially vary, without occasioning a similar variation in the profits on capital employed on manufactures and commerce.

employed in trade. If they were less, capital would be taken from trade to agriculture.

After all the fertile land in the immediate neighbourhood of the first settlers were cultivated, if capital and population increased, more food would be required, and it could only be procured from land not so advantageously situated. Supposing, then, the land to be equally fertile, the necessity of employing more labourers, horses, &c., to carry the produce from the place where it was grown to the place where it was to be consumed, although no alteration were to take place in the wages of labour, would make it necessary that more capital should be permanently employed to obtain the same produce. Suppose this addition to be of the value of 10 quarters of wheat, the whole capital employed on the new land would be 210, to obtain the same return as on the old; and, consequently, the profits of stock would fall from 50 to 43 per cent., or 90 on 210.*

On the land first cultivated, the return would be the same as before, namely 50 per cent., or 100 quarters of wheat: but the general profits of stock being regulated by the profits made on the least profitable employment of capital on agriculture, a division of the 100 quarters would take place, 43 per cent., or 86 quarters, would constitute the profit of stock, and 7 per cent., or 14 quarters, would constitute rent. And that such a division must take place is evident, when we consider that the owner of the capital of the value of 210 quarters of wheat would obtain precisely the same profit, whether he cultivated the distant land, or paid the first settler 14 quarters for rent.

In this stage, the profits in all capital employed in trade would fall to 43 per cent.

If, in the further progress of population and wealth, the produce of more land were required to obtain the same return, it might be necessary to employ, either on account of distance, or the worse quality of land, the value of 220 quarters of wheat, the profits of stock would then fall to 36 per cent., or 80 on 220, and the rent of the first land would rise to 28 quarters of wheat, and on the second portion of land cultivated, rent would now commence, and would amount to 14 quarters.

The profits on all trading capital would also fall to 36 per cent.

Thus, by bringing successively land of a worse quality, or less favourably situated into cultivation, rent would rise on the land previously cultivated, and precisely in the same degree would profits fall; and if the smallness of profits do not check accumulation, there are hardly any limits to the rise of rent, and the fall of profit.

* Profits of stock fall, because land equally fertile cannot be obtained, and through the whole progress of society profits are regulated by the difficulty or facility of procuring food. This is a principle of great importance, and has been almost overlooked in the writings of Political Economists. They appear to think that profits of stock can be raised by commercial causes, independently of the supply of food.

If instead of employing capital at a distance on new land, an additional capital of the value of 210 quarters of wheat be employed on the first land cultivated, and its return were in like manner 43 per cent. or 90 on 210; the produce of 50 per cent. on the first capital, would be divided in the same manner as before,—43 per cent. or 86 quarters would constitute profit, and 14 quarters rent.

If 220 quarters were employed in addition with the same result as before, the first capital would afford a rent of 28; and the second of 14 quarters, and the profits on the whole capital of 630 quarters would be equal, and would amount to 36 per cent.

Supposing that the nature of man was so altered, that he required double the quantity of food that is now necessary for his subsistence, and consequently, that the expenses of cultivation were very greatly increased. Under such circumstances, the knowledge and capital of an old society employed on fresh and fertile land in a new country would leave a much less surplus produce; consequently, the profits of stock could never be so high. But accumulation, though slower in its progress, might still go on, and rent would begin just as before, when more distant or less fertile land were cultivated.

The natural limit to population would of course be much earlier, and rent could never rise to the height to which it may now do; because, in the nature of things, land of the same poor quality would never be brought into cultivation;—nor could the same amount of capital be employed on the better land with any adequate return of profit.*

The following table is constructed on the supposition, that the first portion of land yields 100 quarters profit on a capital of 200 quarters; the second portion, 90 quarters on 210, according to the foregoing calculations.† It will be seen that, during the progress of a country, the whole produce raised on its land, will increase, and for a certain time that part of the produce which belongs to the profits of stock, as well as that part which belongs to rent, will increase; but that, at a later period, every accumulation of capital will be attended with an absolute, as well as a proportionate diminution of profits,—though rents will uniformly increase. A less revenue, it will be seen, will be enjoyed by the owner of stock,

* In all that I have said concerning the origin and progress of rent, I have briefly repeated, and endeavoured to elucidate the principles which Mr Malthus has so ably laid down, on the same subject, in his "Inquiry into the Nature and Progress of Rent;" a work abounding in original ideas,—which are useful not only as they regard rent, but as connected with the question of taxation; perhaps, the most difficult and intricate of all the subjects on which Political Economy treats.

† It is scarcely necessary to observe, that the data on which this table is constructed are assumed, and are probably very far from the truth. They were fixed on as tending to illustrate the principle, which would be the same, whether the first profits were 50 per cent. or 5,—or, whether an additional capital of 10 quarters, or of 100, were required to obtain the same produce from the cultivation of new land. In proportion as the capital employed on the land, consisted more of fixed capital, and less of circulating capital, would rent advance, and property fall less rapidly.

when 1,350 quarters are employed on the different qualities of land, than when 1,100 were employed. In the former case the whole profits will be only 270, in the latter 275; and when 1,610 are employed, profits will fall to 241½.*

This is a view of the effects of accumulation which is exceedingly curious, and has, I believe, never before been noticed.

It will be seen by the table, that, in a progressive country, rent is not only absolutely increasing, but that it is also increasing in its ratio to the capital employed on the land; thus, when 410 was the whole capital employed, the landlord obtained 3½ per cent.; when 1,100, 13¼ per cent.; and when 1,880, 16½ per cent. The landlord not only obtains a greater produce, but a larger share.—(*See Table on next page.*)

Rent,† then, is in all cases a portion of the profits previously obtained on the land. It is never a new creation of revenue, but always part of a revenue already created.

Profits of stock fall only, because land equally well adapted to produce food cannot be procured; and the degree of the fall of profits, and the rise of rents, depends wholly on the increased expense of production.

If, therefore, in the progress of countries in wealth and population, new portions of fertile land could be added to such countries, with every increase of capital, profits would never fall, nor rents rise.‡

If the money price of corn, and the wages of labour, did not vary in price in the least degree, during the progress of the country in wealth and population, still profits would fall and rents would rise; because *more* labourers would be employed on the more distant or less fertile land, in order to obtain the same supply of raw produce; and therefore the cost of production would have increased, whilst the value of the produce continued the same.

But the price of corn, and of all other raw produce, has been invariably observed to rise as a nation became wealthy, and was obliged to have recourse to poorer lands for the production of part

* This would be the effect of a constantly accumulating capital, in a country which refused to import foreign and cheaper corn. But after profits have very much fallen, accumulation will be checked, and capital will be exported to be employed in those countries where food is cheap and profits high. All European colonies have been established with the capital of the mother countries, and have thereby checked accumulation. That part of the population, too, which is employed in the foreign carrying trade, is fed with foreign corn. It cannot be doubted, that low profits, which are the inevitable effects of a really high price of corn, tend to draw capital abroad: this consideration ought therefore to be a powerful reason to prevent us from restricting importation.

† By rent I always mean the remuneration given to the landlord for the use of the original and inherent power of the land. If either the landlord expends capital on his own land, or the capital of a preceding tenant is left upon it at the expiration of his lease, he may obtain what is indeed called a larger rent, but a portion of this is evidently paid for the use of capital. The other portion only is paid for the use of the original power of the land.

‡ Excepting, as has been before observed, the real wages of labour should rise, of a worse system of agriculture be practised.

TABLE, showing the Progress of Rent and Profit under an assumed Augmentation of Capital.

| Capital estimated in quarters of wheat. | Profit per cent. | Neat produce in quarters of wheat, after paying the cost of production on each capital. | Profit of 1st portion of land in quarters of wheat. | Rent of 1st portion of land in quarters of wheat. | Profit of 2d portion of land in quarters of wheat. | Rent of 2d portion of land in quarters of wheat. | Profit of 3d portion of land in quarters of wheat. | Rent of 3d portion of land in quarters of wheat. | Profit of 4th portion of land in quarters of wheat. | Rent of 4th portion of land in quarters of wheat. | Profit of 5th portion of land in quarters of wheat. | Rent of 5th portion of land in quarters of wheat. | Profit of 6th portion of land in quarters of wheat. | Rent of 6th portion of land in quarters of wheat. | Profit of 7th portion of land in quarters of wheat. | Rent of 7th portion of land in quarters of wheat. | Profit of 8th portion of land in quarters of wheat. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 200 | 50 | 100 | 100 | none. | | | | | | | | | | | | | |
| 210 | 43 | 90 | 86 | 14 | 90 | none. | | | | | | | | | | | |
| 220 | 36 | 80 | 72 | 28 | 76 | 14 | 80 | none. | | | | | | | | | |
| 230 | 30 | 70 | 60 | 40 | 63 | 27 | 66 | 14 | 70 | none. | | | | | | | |
| 240 | 25 | 60 | 50 | 50 | $52\frac{1}{2}$ | $37\frac{1}{2}$ | 55 | 25 | $57\frac{1}{2}$ | $12\frac{1}{2}$ | 60 | none. | | | | | |
| 250 | 20 | 50 | 40 | 60 | 42 | 48 | 44 | 36 | 46 | 24 | 48 | 12 | 50 | none. | | | |
| 260 | 15 | 40 | 30 | 70 | $31\frac{1}{2}$ | $58\frac{1}{2}$ | 33 | 47 | $34\frac{1}{2}$ | $35\frac{1}{2}$ | 36 | 24 | $37\frac{1}{2}$ | $12\frac{1}{2}$ | 40 | none. | |
| 270 | 11 | 30 | 22 | 78 | 23 | 67 | 24 | 56 | 25.3 | 44.7 | 26.4 | 33.6 | $\frac{1}{2}$ | $22\frac{1}{2}$ | 27.6 | 12.4 | 29.7 |

| | When the whole capital employed is | Whole amount of rent received by landlords in quarters of wheat. | Whole amount of profits in quarters received by owners of stock. | Profit per cent on the whole capital. | Rent per cent. on the whole capital. | Total produce in quarters of wheat, after paying the cost of production. |
|---|---|---|---|---|---|---|
| 1st Period | 200 | none. | 100 | 50 | | 100 |
| 2d Ditto | 410 | 14 | 176 | 43 | $3\frac{1}{2}$ | 190 |
| 3d Ditto | 630 | 42 | 228 | 36 | $6\frac{3}{4}$ | 270 |
| 4th Ditto | 860 | 81 | 259 | 30 | $9\frac{1}{2}$ | 340 |
| 5th Ditto | 1100 | 125 | 275 | 25 | $11\frac{1}{2}$ | 400 |
| 6th Ditto | 1350 | 180 | 270 | 20 | $13\frac{1}{4}$ | 450 |
| 7th Ditto | 1610 | $248\frac{1}{2}$ | $241\frac{1}{2}$ | 15 | $15\frac{1}{2}$ | 490 |
| 8th Ditto | 1880 | $314\frac{1}{2}$ | $205\frac{1}{2}$ | 11 | $16\frac{1}{2}$ | 520 |

of its food; and very little consideration will convince us, that such is the effect which would naturally be expected to take place under such circumstances.

The exchangeable value of all commodities rises as the difficulties of their production increase. If, then, new difficulties occur in the production of corn, from more labour being necessary, whilst no more labour is required to produce gold, silver, cloth, linen, &c., the exchangeable value of corn will necessarily rise, as compared with those things. On the contrary, facilities in the production of corn, or of any other commodity of whatever kind, which shall afford the same produce with less labour, will lower its exchangeable value.* Thus we see that improvements in agriculture, or in the implements of husbandry, lower the exchangeable value of corn;† improvements in the machinery connected with the manufacture of cotton, lower the exchangeable value of cotton goods; and improvements in mining, or the discovery of new and more abundant mines of the precious metals, lower the value of gold and silver, or, which is the same thing, raise the price of all other commodities. Wherever competition can have its full effect, and the production of the commodity be not limited by nature, as is the case with some wines, the difficulty or facility of their production will ultimately regulate their exchangeable value.‡ The sole effect, then, of the progress of wealth on prices, independently of all improvements, either in agriculture or manufactures, appears to be to raise the price of raw produce and of labour, leaving all other commodities at their original prices, and to lower general profits in consequence of the general rise of wages.

This fact is of more importance than at first sight appears, as it relates to the interest of the landlord, and the other parts of the community. Not only is the situation of the landlord improved (by the increasing difficulty of procuring food, in consequence of accumulation,) by obtaining an increased quantity of the produce of the land, but also by the increased exchangeable value of that quantity. If his rent be increased from 14 to 28 quarters, it would

* The low price of corn, caused by improvements in agriculture, would give a stimulus to population, by increasing profits and encouraging accumulation, which would again raise the price of corn and lower profits. But a larger population could be maintained at the same price of corn, the same profits and the same rents. Improvements in agriculture may then be said to increase profits, and to lower for a time rents.

† The causes, which render the acquisition of an additional quantity of corn more difficult are, in progressive countries, in constant operation, whilst marked improvements in agriculture, or in the implements of husbandry, are of less frequent occurrence. If these opposite causes acted with equal effect, corn would be subject only to accidental variation of price, arising from bad seasons, from greater or less real wages of labour, or from an alteration in the value of the precious metals, proceeding from their abundance or scarcity.

‡ Though the price of all commodities is ultimately regulated by, and is always tending to, the cost of their production, including the general profits of stock, they are all subject, and perhaps corn more than most others, to an accidental price proceeding from temporary causes.

be more than doubled, because he would be able to command more than double the quantity of commodities, in exchange for the 28 quarters. As rents are agreed for, and paid in money, he would, under the circumstances supposed, receive more than double of his former money rent.

In like manner, if rent fell, the landlord would suffer two losses; he would be a loser of that portion of the raw produce which constituted his additional rent; and further, he would be a loser by the depreciation in the real or exchangeable value of the raw produce in which, or in the value of which, his remaining rent would be paid.*

As the revenue of the farmer is realized in raw produce, or in the value of raw produce, he is interested, as well as the landlord, in its high exchangeable value, but a low price of produce may be compensated to him by a great additional quantity.

It follows, then, that the interest of the landlord is always opposed to the interest of every other class in the community. His situation is never so prosperous, as when food is scarce and dear: whereas, all other persons are greatly benefited by procuring food cheap. High rent and low profits, for they invariably accompany each other, ought never to be the subject of complaint, if they are the effect of the natural course of things.

They are the most unequivocal proofs of wealth and prosperity, and of an abundant population, compared with the fertility of the soil. The general profits of stock depend wholly on the profits of the last portion of capital employed on the land; if, therefore, landlords were to relinquish the whole of their rents, they would neither raise the general profits of stock, nor lower the price of corn to the consumer. It would have no other effect, as Mr Malthus has observed, than to enable those farmers, whose lands now pay a rent, to live like gentlemen, and they would have to expend that portion of the general revenue which now falls to the share of the landlord.

A nation is rich, not according to the abundance of its money, nor to the high money value at which its commodities circulate, but according to the abundance of its commodities, contributing to its comforts and enjoyments. Although this is a proposition, from which few would dissent, many look with the greatest alarm at the prospect of the diminution of their money revenue, though such reduced revenue should have so improved in exchangeable value, as to procure considerably more of all the necessaries and luxuries of life.

* It has been thought that the price of corn regulates the prices of all other things. This appears to me to be a mistake. If the price of corn is affected by the rise or fall of the value of the precious metals themselves, then indeed will the price of commodities be also affected, but they vary, because the value of money varies, not because the value of corn is altered. Commodities, I think, cannot materially rise or fall, whilst money and commodities continue in the same proportions, or rather whilst the cost of production of both estimated in corn continues the same. In the case of taxation, a part of the price is paid for the liberty of using the commodity, and does not constitute its real price.

If, then, the principles here stated as governing rent and profit be correct, general profits on capital can only be raised by a fall in the exchangeable value of food, and which fall can only arise from three causes:—

1st. The fall of the real wages of labour, which shall enable the farmer to bring a greater excess of produce to market.

2d. Improvements in agriculture, or in the implements of husbandry, which shall also increase the excess of produce.

3dly. The discovery of new markets, from whence corn may be imported at a cheaper price than it can be grown for at home.

The first of these causes is more or less permanent, according as the price from which wages fall, is more or less near that remuneration for labour which is necessary to the actual subsistence of the labourer.

The rise or fall of wages is common to all states of society, whether it be the stationary, the advancing, or the retrograde state. In the stationary state, it is regulated wholly by the increase or falling off of the population. In the advancing state, it depends on whether the capital or the population advance, at the more rapid course. In the retrograde state, it depends on whether population or capital decrease with the greater rapidity.

As experience demonstrates that capital and population alternately take the lead, and wages in consequence are liberal or scanty, nothing can be positively laid down, respecting profits, as far as wages are concerned.

But I think it may be most satisfactorily proved, that in every society advancing in wealth and population, independently of the effect produced by liberal or scanty wages, general profits must fall, unless there be improvements in agriculture, or corn can be imported at a cheaper price.

It seems the necessary result of the principles which have been stated to regulate the progress of rent.

This principle will, however, not be readily admitted by those who ascribe to the extension of commerce, and discovery of new markets, where our commodities can be sold dearer, and foreign commodities can be bought cheaper, the progress of profits, without any reference whatever to the state of the land, and the rate of profit obtained on the last portions of capital employed upon it. Nothing is more common than to hear it asserted, that profits on agriculture no more regulate the profits of commerce, than that the profits of commerce regulate the profits on agriculture. It is contended that they alternately take the lead; and, if the profits of commerce rise, which it is said they do, when new markets are discovered, the profits of agriculture will also rise; for it is admitted, that if they did not do so, capital would be withdrawn from the land to be employed in the more profitable trade. But if the principles respecting the progress of rent be correct, it is evident, that, with the same population and capital, whilst none of the agri-

cultural capital is withdrawn from the cultivation of the land, agricultural profits cannot rise, nor can rent fall: either then it must be contended, which is at variance with all the principles of political economy, that the profits on commercial capital will rise considerably, whilst the profits on agricultural capital suffer no alteration, or that, under such circumstances, the profits on commerce will not rise.*

It is this latter opinion which I consider as the true one. I do not deny that the first discoverer of a new and better market may, for a time, before competition operates, obtain unusual profits. He may either sell the commodities he exports at a higher price than those who are ignorant of the new market, or he may purchase the commodities imported at a cheaper price. Whilst he, or a few more exclusively follow this trade, their profits will be above the level of general profits. But it is of the general rate of profit that we are speaking, and not of the profits of a few individuals; and I cannot doubt that, in proportion as such trade shall be generally known and followed, there will be such a fall in the price of the foreign commodity in the importing country, in consequence of its increased abundance, and the greater facility with which it is procured, that its sale will afford only the common rate of profits—that so far from the high profits obtained by the few who first engaged in the new trade elevating the general rate of profits—those profits will themselves sink to the ordinary level.

The effects are precisely similar to those which follow from the use of improved machinery at home.

Whilst the use of the machine is confined to one, or a very few manufacturers, they may obtain unusual profits, because they are enabled to sell their commodities at a price much above the cost of production—but as soon as the machine becomes general to the whole trade, the price of the commodities will sink to the actual cost of production, leaving only the usual and ordinary profits.

During the period of capital moving from one employment to another, the profits on that to which capital is flowing will be relatively high, but will continue so no longer than till the requisite capital is obtained.

There are two ways in which a country may be benefited by trade—one by the increase of the general rate of profits, which, according to my opinion, can never take place but in consequence of cheap food, which is beneficial only to those who derive a revenue from the employment of their capital, either as farmers, manu-

* Mr Malthus has supplied me with a happy illustration—he has correctly compared "the soil to a great number of machines, all susceptible of continued improvement by the application of capital to them, but yet of very different original qualities and powers." How, I would ask, can profits rise whilst we are obliged to make use of that machine which has the worst original qualities and powers? We cannot abandon the use of it; for it is the condition on which we obtain the food necessary for our population, and the demand for food is by the supposition not diminished; but who would consent to use it if he could make greater profits elsewhere?

facturers, merchants, or capitalists, lending their money at interest —the other by the abundance of commodities, and by a fall in their exchangeable value, in which the whole community participate. In the first case, the revenue of the country is augmented—in the second, the same revenue becomes efficient in procuring a greater amount of the necessaries and luxuries of life.

It is in this latter mode only* that nations are benefited by the extension of commerce, by the division of labour in manufactures, and by the discovery of machinery,—they all augment the amount of commodities, and contribute very much to the ease and happiness of mankind; but they have no effect on the rate of profits, because they do not augment the produce compared with the cost of production on the land, and it is impossible that all other profits should rise whilst the profits on land are either stationary, or retrograde.

Profits, then, depend on the price, or rather on the value of food. Every thing which gives facility to the production of food, however scarce, or however abundant commodities may become, will raise the rate of profits, whilst on the contrary, every thing which shall augment the cost of production without augmenting the quantity of food,† will, under every circumstance, lower the general rate of profits. The facilities of obtaining food are beneficial in two ways to the owners of capital; it at the same time raises profits and increases the amount of consumable commodities. The facilities in obtaining all other things only increase the amount of commodities.

If, then, the power of purchasing cheap food be of such great importance, and if the importation of corn will tend to reduce its price, arguments almost unanswerable respecting the danger of dependence on foreign countries for a portion of our food—for in no other view will the question bear an argument—ought to be brought forward to induce us to restrict importation, and thereby forcibly to detain capital in an employment which it would otherwise leave for one much more advantageous.

If the legislature were at once to adopt a decisive policy with regard to the trade in corn—if it were to allow a permanently free trade, and did not, with every variation of price, alternately restrict and encourage importation, we should undoubtedly be a regularly importing country. We should be so in consequence of the superiority of our wealth and population, compared to the fertility of our soil over our neighbours. It is only when a country is comparatively wealthy, when all its fertile land is in a state of high cultivation, and that it is obliged to have recourse to its inferior

* Excepting when the extension of commerce enables us to obtain food at really cheaper prices.

† If by foreign commerce, or the discovery of machinery, the commodities consumed by the labourer should become much cheaper, wages would fall; and this, as we have before observed, would raise the profits of the farmer, and therefore, all other profits.

lands to obtain the food necessary for its population; or when it is originally without the advantages of a fertile soil, that it can become profitable to import corn.*

It is, then, the dangers of dependence on foreign supply for any considerable quantity of our food, which can alone be opposed to the many advantages which, circumstanced as we are, would attend the importation of corn.

These dangers do not admit of being very correctly estimated; they are in some degree matters of opinion, and cannot, like the advantages on the other side, be reduced to accurate calculation. They are generally stated to be two—1st, That in the case of war a combination of the Continental powers, or the influence of our principal enemy, might deprive us of our accustomed supply—2dly, That when bad seasons occurred abroad, the exporting countries would have, and would exercise, the power of withholding the quantity usually exported to make up for their own deficient supply.†

If we became a regularly importing country, and foreigners could confidently rely on the demand of our market, much more land would be cultivated in the corn countries with a view to exportation. When we consider the value of even a few weeks' consumption of corn in England, no interruption could be given to the export trade, if the Continent supplied us with any considerable quantity of corn, without the most extensively ruinous commercial distress—distress which no sovereign, or combination of sovereigns, would be willing to inflict on their people; and, if willing, it would be a measure to which probably no people would submit. It was the endeavour of Buonaparte to prevent the exportation of the raw produce of Russia, more than any other cause, which produced the astonishing efforts of the people of that country against the most powerful force perhaps ever assembled to subjugate a nation.

The immense capital which would be employed on the land, could not be withdrawn suddenly, and under such circumstances, without immense loss; besides which, the glut of corn in their markets, which would affect their whole supply, and lower its value beyond calculation; the failure of those returns, which are essential in all commercial adventures, would occasion a scene of wide-spreading ruin, which, if a country would patiently endure, would render it unfit to wage war with any prospect of success. We have all witnessed the distress in this country, and we have all heard of the still greater distress in Ireland, from a fall in the price of corn, at a time, too, when it is acknowledged that our own crop has been deficient; when importation has been regulated by price, and when we have not experienced any of the effects of a glut. Of what nature would that distress have been if the price of corn had fallen

* This principle is most ably stated by Mr Malthus in page 42 of "An Inquiry," &c.

† It is this latter opinion which is chiefly insisted upon by Mr Malthus, in his late publication, "The Grounds of an Opinion," &c.

to a half a quarter, or an eighth part of the present price? For the effects of plenty or scarcity, on the price of corn, are incalculably greater than in proportion to the increase or deficiency of quantity. These, then, are the inconveniences which the exporting countries would have to endure.

Ours would not be light. A great diminution in our usual supply, amounting probably to one-eighth of our whole consumption, it must be confessed, would be an evil of considerable magnitude; but we have obtained a supply equal to this, even when the growth of foreign countries was not regulated by the constant demand of our market. We all know the prodigious effects of a high price in procuring a supply. It cannot, I think, be doubted, that we should obtain a considerable quantity from those countries with which we were not at war; which, with the most economical use of our own produce, and the quantity in store,* would enable us to subsist till we had bestowed the necessary capital and labour on our own land, with a view to future production. That this would be a most afflicting change, I certainly allow; but I am fully persuaded that we should not be driven to such an alternative, and that, notwithstanding the war, we should be freely supplied with the corn, expressly grown in foreign countries for our consumption. Buonaparte, when he was most hostile to us, permitted the exportation of corn to England by licenses, when our prices were high from a bad harvest, even when all other commerce was prohibited. Such a state of things could not come upon us suddenly; a danger of this nature would be partly foreseen, and due precautions would be taken. Would it be wise, then, to legislate with the view of preventing an evil which might never occur; and, to ward off a most improbable danger, sacrifice annually a revenue of some millions?

In contemplating a trade in corn, unshackled by restrictions on importation, and a consequent supply from France, and other countries, where it can be brought to market at a price not much above half that at which we can ourselves produce it on some of our poorer lands, Mr Malthus does not sufficiently allow for the greater quantity of corn which would be grown abroad, if importation was to become the settled policy of this country. There cannot be the least doubt that if the corn countries could depend on the markets of England for a regular demand, if they could be perfectly secure that our laws respecting the corn trade would not be repeatedly vacillating between bounties, restrictions, and prohibitions, a much larger supply would be grown, and the danger of a greatly diminished exportation, in consequence of bad seasons, would be less likely to occur. Countries which have never yet supplied us might, if our policy was fixed, afford us a considerable quantity.

* As London is to be a depôt for foreign corn, this store might be very great.

It is at such times that it would be particularly the interest of foreign countries to supply our wants, as the exchangeable value of corn does not rise in proportion only to the deficiency of supply, but two, three, four times as much, according to the amount of the deficiency.

If the consumption of England is 10 million quarters, which, in an average year, would sell for 40 millions of money; and, if the supply should be deficient one-fourth, the 7,500,000 quarters would not sell for 40 millions only, but probably for fifty millions or more. Under the circumstances, then, of bad seasons, the exporting country would content itself with the smallest possible quantity necessary for their own consumption, and would take advantage of the high price in England to sell all they could spare, as not only would corn be high, as compared with money, but as compared with all other things; and if the growers of corn adopted any other rule, they would be in a worse situation, as far as regarded wealth, than if they had constantly limited the growth of corn to the wants of their own people.

If 100 millions of capital were employed on the land to obtain the quantity necessary to their own subsistence, and 20 millions more that they might export the produce, they would lose the whole return of the 20 millions in the scarce year, which they would not have done had they not been an exporting country. At whatever price exportation might be restricted by foreign countries, the chance of corn rising to that price would be diminished by the greater quantity produced in consequence of our demand.

With respect to the supply of corn, it has been remarked, in reference to a single country, that if the crops are bad in one district they are generally productive in another; that if the weather is injurious to one soil, or to one situation, it is beneficial to a different soil and different situation; and, by this compensating power, Providence has bountifully secured us from the frequent recurrence of dearths. If this remark be just as applied to one country, how much more strongly may it be applied to all the countries together which compose our world? Will not the deficiency of one country be made up by the plenty of another? and, after the experience which we have had of the power of high prices to procure a supply, can we have any just reason to fear that we shall be exposed to any particular danger from depending on importation for so much corn as may be necessary for a few weeks of our consumption.

From all that I can learn, the price of corn in Holland, which country depends almost wholly on foreign supply, has been remarkably steady, even during the convulsed times which Europe has lately experienced, — a convincing proof, notwithstanding the smallness of the country, that the effects of bad seasons are not exclusively borne by importing countries.

That great improvements have been made in agriculture, and that much capital has been expended on the land, it is not

attempted to deny; but, with all those improvements, we have not overcome the natural impediments resulting from our increasing wealth and prosperity, which obliges us to cultivate at a disadvantage our poor lands if the importation of corn is restricted or prohibited. If we were left to ourselves, unfettered by legislative enactments, we should gradually withdraw our capital from the cultivation of such lands, and import the produce which is at present raised upon them. The capital withdrawn would be employed in the manufacture of such commodities as would be exported in return for the corn.* Such a distribution of part of the capital of the country would be more advantageous or it would not be adopted. This principle is one of the best established in the science of political economy, and by no one is more readily admitted than by Mr Malthus. It is the foundation of all his arguments, in his comparison of the advantages and disadvantages attending an unrestricted trade in corn, in his "Observations on the Corn Laws."

In his last publication, however, in one part of it, he dwells with much stress on the losses of agricultural capital, which the country would sustain, by allowing an unrestricted importation. He laments the loss of that which by the course of events has become of no use to us, and by the employment of which we actually lose. We might just as fairly have been told, when the steam-engine, or Mr Arkwright's cotton machine was brought to perfection, that it would be wrong to adopt the use of them, because the value of the old clumsy machinery would be lost to us. That the farmers of the poorer lands would be losers, there can be no doubt, but the public would gain many times the amount of their losses; and, after the exchange of capital from land to manufactures had been effected, the farmers themselves, as well as every other class of the community, except the landholders, would very considerably increase their profits.

It might, however, be desirable, that the farmers, during their current leases, should be protected against the losses which they would undoubtedly suffer from the new value of money, which would result from a cheap price of corn, under their existing money engagements with their landlords.

Although the nation would sacrifice much more than the farmers would save even by a temporary high price of corn, it might be just to lay restrictive duties on importation for three or four years, and to declare that, after that period, the trade in corn should be free, and that imported corn should be subject to no other duty than

* If it be true, as Mr Malthus observes, that in Ireland there are no manufactures in which capital could be profitably employed, capital would not be withdrawn from the land, and then there would be no loss of agricultural capital. Ireland would in such case have the same surplus corn produce, although it would be of less exchangeable value. Her revenue might be diminished; but if she would not or could not manufacture goods, and would not cultivate the ground, she would have no revenue at all.

such as we might find it expedient to impose on corn of our own growth.*

Mr Malthus is, no doubt, correct, when he says, "If merely the best modes of cultivation now in use, in some parts of Great Britain, were generally extended, and the whole country was brought to a level, in proportion to its natural advantages, of soil and situation, by the further accumulation and more equable distribution of capital and skill, the quantity of additional produce would be immense, and would afford the means of subsistence to a very great increase of population.†

This reflection is true, and is highly pleasing—it shows that we are yet at a great distance from the end of our resources, and that we may contemplate an increase of prosperity and wealth far exceeding that of any country which has preceded us. This may take place under either system, that of importation or restriction, though not with an equally accelerated pace, and is no argument why we should not, at every period of our improvement, avail ourselves of the full extent of the advantages offered to our acceptance—it is no reason why we should not make the very best disposition of our capital, so as to ensure the most abundant return. The land has, as I before said, been compared by Mr Malthus, to a great number of machines, all susceptible of continued improvement by the application of capital to them, but yet of very different original qualities and powers. Would it be wise at a great expense to use some of the worst of these machines, when at a less expense we could hire the very best from our neighbours.

Mr Malthus thinks that a low money price of corn would not be favourable to the lower classes of society, because the real exchangeable value of labour, that is, its power of commanding the necessaries, conveniences, and luxuries of life, would not be augmented, but diminished by a low money price. Some of his observations on this subject are certainly of great weight, but he does not sufficiently allow for the effects of a better distribution of the national capital on the situation of the lower classes. It would be beneficial to them, because the same capital would employ more hands; besides, that the greater profits would lead to further accumulation; and thus would a stimulus be given to population by really high wages, which could not fail for a long time to ameliorate the condition of the labouring classes.

* I by no means agree with Adam Smith, or with Mr Malthus, respecting the effects of taxation on the necessaries of life. The former can find no term too severe by which to characterise them. Mr Malthus is more lenient. They both think that such taxes, inealculably more than any other, tend to diminish capital and production. I do not say that they are the best of taxes, but they do not, I think, subject us to any of the disadvantages of which Adam Smith speaks in foreign trade; nor do they produce effects very different from other taxes. Adam Smith thought that such taxes fell exclusively on the landholder; Mr Malthus thinks they are divided between the landholder and consumer. It appears to me that they are paid wholly by the consumer.

† Page 22, "Grounds," &c.

The effects on the interests of this class, would be nearly the same as the effects of improved machinery, which, it is now no longer questioned, has a decided tendency to raise the real wages of labour.

Mr Malthus also observes, " that of the commercial and manufacturing classes, only those who are directly engaged in foreign trade will feel the benefit of the importing system."

If the view which has been taken of rent be correct,—if it rise as general profits fall, and fall as general profits rise,—and if the effect of importing corn is to lower rent, which has been admitted, and ably exemplified by Mr Malthus himself,—all who are concerned in trade,—all capitalists whatever, whether they be farmers, manufacturers, or merchants, will have a great augmentation of profits. A fall in the price of corn, in consequence of improvements in agriculture or of importation, will lower the exchangeable value of corn only,—the price of no other commodity will be affected. If, then, the price of labour falls, which it must do when the price of corn is lowered, the real profits of all descriptions must rise; and no person will be so materially benefited as the manufacturing and commercial part of society.

If the demand for home commodities should be diminished, because of the fall of rent on the part of the landlords, it will be increased in a far greater degree by the increased opulence of the commercial classes.

If restrictions on the importation of corn should take place, I do not apprehend that we shall lose any part of our foreign trade; on this point I agree with Mr Malthus. In the case of a free trade in corn, it would be considerably augmented: but the question is not, whether we can retain the same foreign trade—but, whether, in both cases, it will be equally profitable.

Our commodities would not sell abroad for more or less in consequence of a free trade, and a cheap price of corn; but the cost of production to our manufacturers would be very different if the price of corn was eighty, or was sixty shillings per quarter; and consequently profits would be augmented by all the cost saved in the production of the exported commodities.

Mr Malthus notices an observation, which was first made by Hume, that a rise of prices has a magic effect on industry: he states the effects of a fall to be proportionally depressing.* A rise of prices has been stated to be one of the advantages, to counterbalance the many evils attendant on a depreciation of money, from a real fall in the value of the precious metals, from raising the denomination of the coin, or from the over-issue of paper-money.

It is said to be beneficial, because it betters the situation of the commercial classes at the expense of those enjoying fixed incomes; —and that it is chiefly in those classes, that the great accumulations are made, and productive industry encouraged.

* Grounds, &c. p. 32.

A recurrence to a better monetary system, it is said, though highly desirable, tends to give a temporary discouragement to accumulation and industry, by depressing the commercial part of the community, and is the effect of a fall of prices: Mr Malthus supposes that such an effect will be produced by the fall of the price of corn. If the observation made by Hume were well founded, still it would not apply to the present instance:—for every thing that the manufacturer would have to sell, would be as dear as ever: it is only what he would buy that would be cheap, namely, corn and labour, by which his gains would be increased. I must again observe, that a rise in the value of money lowers all things; whereas a fall in the price of corn, only lowers the wages of labour, and therefore raises profits.

If, then, the prosperity of the commercial classes will most certainly lead to accumulation of capital, and the encouragement of productive industry; these can by no means be so surely obtained as by a fall in the price of corn.

I cannot agree with Mr Malthus in his approbation of the opinion of Adam Smith, "that no equal quantity of productive labour employed in manufactures, can *ever* occasion so great a re-production as in agriculture." I suppose that he must have overlooked the term ever in this passage, otherwise the opinion is more consistent with the doctrine of the Economist, than with those which he has maintained; as he has stated, and I think correctly, that in the first settling of a new country, and in every stage of its improvement, there is a portion of its capital employed on the land, for the profits of stock merely, and which yields no rent whatever. Productive labour employed on such land never does in fact afford so *great* a re-production, as the same productive labour employed in manufactures.

The difference is not indeed great, and is voluntarily relinquished, on account of the security and respectability which attends the employment of capital on land. In the infancy of society, when no rent is paid, is not the re-production of value in the coarse manufactures, and in the implements of husbandry with a given capital, at least as great as the value which the same capital would afford if employed on the land?

This opinion indeed is at variance with all the general doctrines of Mr Malthus, which he has so ably maintained in this as well as in all his other publications. In the "Inquiry," speaking of what I consider a similar opinion of Adam Smith, he observes, "I cannot, however, agree with him in thinking that all land which yields food must necessarily yield rent. The land which is successively taken into cultivation in improving countries, may only pay profits and labour. A fair profit on the stock employed, including, of course, the payment of labour, will always be a sufficient inducement to cultivate." The same motives will also induce some to manufacture goods, and the profits of both, in the same stages of society, will be nearly the same.

In the course of these observations, I have often had occasion to insist, that rent never falls without the profits of stock rising. If it suit us to-day to import corn rather than grow it, we are solely influenced by the cheaper price. If we import, the portion of capital last employed on the land, and which yielded no rent, will be withdrawn; rent will fall and profits rise, and another portion of capital employed on the land will come under the same description of only yielding the usual profits of stock.

If corn can be imported cheaper than it can be grown on this rather better land, rent will again fall and profits rise, and another and better description of land will now be cultivated, for profits only. In every step of our progress, profits of stock increase and rents fall, and more land is abandoned; besides which, the country saves all the difference between the price at which corn can be grown, and the price at which it can be imported, on the quantity we receive from abroad.

Mr Malthus has considered, with the greatest ability, the effect of a cheap price of corn on those who contribute to the interest of our enormous debt. I most fully concur in many of his conclusions on this part of the subject. The wealth of England would, I am persuaded, be considerably augmented by a great reduction in the price of corn, but the whole money value of that wealth would be diminished. It would be diminished by the whole difference of the money value of the corn consumed,—it would be augmented by the increased exchangeable value of all those commodities which would be exported in exchange for the corn imported. The latter would, however, be very unequal to the former; therefore the money value of the commodities of England would, undoubtedly, be considerably lowered.

But, though it is true, that the money value of the mass of our commodities would be diminished, it by no means follows that our annual revenue would fall in the same degree. The advocates for importation ground their opinion of the advantages of it on the conviction that the revenue would not so fall. And, as it is from our revenue that taxes are paid, the burthen might not be really augmented.

Suppose the revenue of a country to fall from 10 to 9 millions, whilst the value of money altered in the proportion of 10 to 8, such country would have a larger neat revenue, after paying a million from the smaller, than it would have after paying it from the larger sum.

That the stockholder would receive more in real value than what he contracted for, in the loans of the late years, is also true; but, as the stockholders themselves contribute very largely to the public burthens, and therefore to the payment of the interest which they receive, no inconsiderable proportion of the taxes would fall on them; and, if we estimate at its true value the additional profits made by the commercial class, they would still be great gainers, notwithstanding their really augmented contributions.

The landlord would be the only sufferer by paying really more, not only without any adequate compensation, but with lowered rents.

It may, indeed, be urged, on the part of the stockholder, and those who live on fixed incomes, that they have been by far the greatest sufferers by the war. The value of their revenue has been diminished by the rise in the price of corn, and by the depreciation in the value of paper-money, whilst, at the same time, the value of their capital has been very much diminished from the lower price of the funds. They have suffered, too, from the inroads lately made on the sinking fund, and which, it is supposed, will be still further extended,—a measure of the greatest injustice,—in direct violation of solemn contracts; for the sinking fund is as much a part of the contract as the dividend, and, as a source of revenue, utterly at variance with all sound principles. It is to the growth of that fund that we ought to look for the means of carrying on future wars, unless we are prepared to relinquish the funding system altogether. To meddle with the sinking fund, is to obtain a little temporary aid at the sacrifice of a great future advantage. It is reversing the whole system of Mr Pitt, in the creation of that fund: he proceeded on the conviction that, for a small present burthen, an immense future advantage would be obtained; and, after witnessing, as we have done, the benefits which have already resulted from his inflexible determination to leave that fund untouched, even when he was pressed by the greatest financial distress, when 3 per cents. were so low as 48, we cannot, I think, hesitate in pronouncing that he would not have countenanced, had he still lived, the measures which have been adopted.

To recur, however, to the subject before me, I shall only further observe, that I shall greatly regret that considerations for any particular class are allowed to check the progress of the wealth and population of the country. If the interests of the landlord be of sufficient consequence, to determine us not to avail ourselves of all the benefits which would follow from importing corn at a cheap price, they should also influence us in rejecting all improvements in agriculture, and in the implements of husbandry; for it is as certain that corn is rendered cheap, rents are lowered, and the ability of the landlord to pay taxes is, for a time at least, as much impaired by such improvements as by the importation of corn. To be consistent, then, let us by the same act arrest improvement, and prohibit importation.

# PROPOSALS

FOR AN

# ECONOMICAL AND SECURE CURRENCY;

WITH

## OBSERVATIONS

ON THE

## PROFITS OF THE BANK OF ENGLAND

AS THEY REGARD THE PUBLIC AND THE PROPRIETORS OF BANK STOCK.

SECOND EDITION.

LONDON.

1816.

# INTRODUCTION.

The following important questions concerning the Bank of England will, next session, come under the discussion of Parliament :—

1st, Whether the Bank shall be obliged to pay their notes in specie at the demand of the holders?

2dly, Whether any alteration shall be made in the terms agreed upon in 1808, between Government and the Bank, for the management of the national debt?

And, 3dly, What compensation the public shall receive for the large amount of public deposits from which the Bank derive profit?

In point of importance, the first of these questions greatly surpasses the rest; but so much has already been written on the subject of currency, and on the laws by which it should be regulated, that I should not trouble the reader with any further observations on those topics, did I not think that a more economical mode of effecting our payments might be advantageously adopted; to explain which, it will be necessary to premise briefly some of the general principles which are found to constitute the laws of currency, and to vindicate them from some of the objections which are brought against them.

The other two questions, though inferior in importance, are, at these times of pressure on our finances, when economy is so essential, well deserving of the serious consideration of Parliament. If, on examination, it should be found that the services performed by the Bank for the public are most prodigally paid, and that this wealthy corporation has been accumulating a treasure of which no example can be brought—much of it at the expense of the public, and owing to the negligence and forbearance of Government—a better arrangement, it is hoped, will now be made; which, while it secures to the Bank a just compensation for the responsibility and trouble which the management of the public business may occasion, shall also guard against any wasteful application of the public resources.

It must, I think, be allowed, that the war, which has pressed heavily on most of the classes of the community, has been attended with unlooked-for benefits to the Bank; and that in proportion to the increase of the public burdens and difficulties have been the gains of that body.

The restriction on the cash payments of the Bank, which was the effect of the war, has enabled them to raise the amount of their notes in circulation from 12 millions to 28 millions; whilst, at the same time, it has exonerated them from all necessity of keeping any large deposit of cash and bullion, a part of their assets from which they derive no profit.

The war, too, has raised the unredeemed public debt, of which the Bank have the management, from 220 to 830 millions; and, notwithstanding the reduced rate of charge, they will receive for the management of the debt alone, in the present year, 277,000*l.*,* whereas, in 1792, their whole receipt on account of the debt was 99,800*l.*

It is to the war that the Bank are also indebted for the increase in the amount of public deposits. In 1792 these deposits were probably less than 4 millions. In and since 1806 we know that they have generally exceeded 11 millions.

It cannot, I think, be doubted, that all the services which the Bank perform for the public could be performed by public servants, and in public offices established for that purpose, at a reduction or saving of expense of nearly half a million per annum.

In 1786 the auditors of public accounts stated it as their opinion, that the public debt, then amounting to 224 millions, could be managed by Government for less than 187*l.* 10s. per million. On a debt of 830 millions the Bank are paid 340*l.* per million on 600 millions, and 300*l.* per million on 230 millions.

Against the mode in which the public business is managed at the Bank no complaint can be justly made; ability, regularity, and precision, are to be found in every office; and in these particulars it is not probable that any change could be made which would be deemed an improvement.

As far as the public are bound to the Bank by any existing agreement, an objection on that score will be urged against any alteration. Inadequate as, in my opinion, was at that time, and under the circumstances in which it was granted, the compensation which the public received from the Bank, for the renewal of their charter, I shall not plead for a revision of that contract, but permit the Bank to enjoy, unmolested, all the fruits of so improvident and unequal a bargain.

But the agreement entered into with the Bank in 1808, for the management of the national debt, is not, I think, of the above description, and either party is now at liberty to annul it. The agreement was for no definite period; and has no necessary connexion with the duration of the charter, which was made eight years before it. Applying to the state of things existing at the time of its formation, or such a state as might be expected to occur within a few years, it is not any longer binding. This is declared

* See Appendix, No. III.

in the following passage of Mr Perceval's letter to the Bank, dated the 15th January 1808, on accepting the scale in respect to the rate for management proposed by the Bank. "Under this impression," says Mr Perceval, "I am strongly inclined to give way to the suggestion of the Bank in the minor parts of the arrangement, and will therefore accede to the scale of allowances therein proposed for the management of the public debt, *so far as it applies to present circumstances, or to such as can be expected to occur within any short period.*" Eight years having since elapsed, and the unredeemed debt having, in that time, increased 280 millions, can it be justly contended that it is not in the power of either party, now or hereafter, to annul this agreement, or to propose such alterations in it as time and circumstances may render expedient?

To Mr Grenfell I am very materially indebted; I have done little more on this part of the subject, than repeat his arguments and statements. I have endeavoured to give my feeble aid to a cause which he has already so ably advocated in parliament, and in which I trust success will crown his future efforts.

# PROPOSALS

FOR AN

# ECONOMICAL AND SECURE CURRENCY.

---

## SECTION I.

In the Medium of Circulation—Cause of Uniformity is Cause of Goodness.

All writers on the subject of money have agreed that uniformity in the value of the circulating medium is an object greatly to be desired. Every improvement, therefore, which can promote an approximation to that object, by diminishing the causes of variation, should be adopted. No plan can possibly be devised which will maintain money at an absolutely uniform value, because it will always be subject to those variations to which the commodity itself is subject, which has been fixed upon as the standard.

While the precious metals continue to be the standard of our currency, money must necessarily undergo the same variations in value as those metals. It was the comparative steadiness in the value of the precious metals, for periods of some duration, which probably was the cause of the preference given to them in all countries, as a standard by which to measure the value of other things.

A currency may be considered as perfect, of which the standard is invariable, which always conforms to that standard, and in the use of which the utmost economy is practised.

Amongst the advantages of a paper over a metallic circulation, may be reckoned, as not the least, the facility with which it may be altered in quantity, as the wants of commerce and temporary circumstances may require: enabling the desirable object of keeping money at a uniform value to be, as far as it is otherwise practicable, securely and cheaply attained.

The quantity of metal, employed as money, in effecting the payments of any particular country, using metallic money; or the quantity of metal for which paper money is the substitute, if paper money be partly or wholly used, must depend on three things: first, on its value;—secondly, on the amount or value of the payments to be made;—and, thirdly, on the degree of economy practised in effecting those payments.

A country using gold as its standard would require, at least, fifteen times less of that metal than it would of silver, if using silver, and nine hundred times less than it would of copper, if using that metal,—fifteen to one being about the proportion which gold bears in value to silver, and nine hundred to one the proportion which it bears to copper. If the denomination of a pound were given to any specific weight of these metals, fifteen times more of such pounds would be required in the one case, and nine hundred times more in the other, whether the metals themselves were employed as money, or paper was partly, or entirely, substituted for them. And if a country uniformly employed the same metal as a standard, the quantity of money required would be in an inverse proportion to the value of that metal. Suppose the metal to be silver, and that, from the difficulty of working the mines, silver should be doubled in value,—half the quantity only would then be wanted for money; and if the whole business of circulation were carried on by paper, of which the standard was silver,—to sustain that paper, at its bullion value, it must in like manner be reduced one half. In the same way it might be shown, that, if silver became as cheap again, compared with all other commodities, double the quantity would be required to circulate the same quantity of goods. When the number of transactions increase in any country from its increasing opulence and industry—bullion remaining at the same value, and the economy in the use of money also continuing unaltered—the value of money will rise on account of the increased use which will be made of it, and will continue permanently above the value of bullion, unless the quantity be increased, either by the addition of paper, or by procuring bullion to be coined into money. There will be more commodities bought and sold, but at lower prices; so that the same money will still be adequate to the increased number of transactions, by passing in each transaction at a higher value. The value of money, then, does not wholly depend upon its absolute quantity, but on its quantity relatively to the payments which it has to accomplish; and the same effects would follow from either of two causes—from increasing the uses for money one tenth—or from diminishing its quantity one tenth; for, in either case, its value would rise one tenth.

It is the rise in the value of money above the value of bullion which is always, in a sound state of the currency, the cause of its increase in quantity; for it is at these times that either an opening is made for the issue of more paper money, which is always attended

with profit to the issuers; or that a profit is made by carrying bullion to the Mint to be coined.

To say that money is more valuable than bullion or the standard, is to say that bullion is selling in the market under the Mint price. It can therefore be purchased, coined, and issued as money, with a profit equal to the difference between the market and Mint prices. The Mint price of gold is 3*l.* 17s. 10½d. If, from increasing opulence, more commodities came to be bought and sold, the first effect would be that the value of money would rise. Instead of 3*l.* 17s. 10½d. of coined money being equal in value to an ounce of gold, 3*l.* 15s. might be equal to that value; and therefore a profit of 2s. 10½d. might be made on every ounce of gold that was carried to the Mint to be coined. This profit, however, could not long continue; for the quantity of money which, by these means, would be added to the circulation, would sink its value, whilst the diminishing quantity of bullion in the market would also tend to raise the value of bullion to that of coin: from one or both these causes a perfect equality in their value could not fail to be soon restored.

It appears, then, that, if the increase in the circulation were supplied by means of coin, the value both of bullion and money would, for a time at least, even after they had found their level, be higher than before; a circumstance which, though often unavoidable, is inconvenient, as it affects all former contracts. This inconvenience is wholly got rid of, by the issue of paper money; for, in that case, there will be no additional demand for bullion; consequently its value will continue unaltered; and the new paper money, as well as the old, will conform to that value.

Besides, then, all the other advantages attending the use of paper money; by the judicious management of the quantity, a degree of uniformity, which is by no other means attainable, is secured to the value of the circulating medium in which all payments are made.

The value of money and the amount of payments remaining the same, the quantity of money required must depend on the degree of economy practised in the use of it. If no payments were made by cheques on bankers, by means of which money is merely written off one account and added to another, and that to the amount of millions daily, with few or no bank notes or coin passing; it is obvious that considerably more currency would be required, or, which is the same in its effects, the same money would pass at a greatly increased value, and would, therefore, be adequate to the additional amount of payments.

Whenever merchants, then, have a want of confidence in each other, which disinclines them to deal on credit, or to accept in payment each other's cheques, notes, or bills: more money, whether it be paper or metallic money, is in demand; and the advantage of a paper circulation, when established on correct principles, is, that this additional quantity can be presently supplied without occasion-

ing any variation in the value of the whole currency, either as compared with bullion or with any other commodity; whereas, with a system of metallic currency, this additional quantity cannot be so readily supplied, and when it is finally supplied, the whole of the currency, as well as bullion, has acquired an increased value.

## SECTION II.

Use of a Standard Commodity—Objections to it considered.

During the late discussions on the bullion question, it was most justly contended, that a currency, to be perfect, should be absolutely invariable in value.

But it was said, too, that ours had become such a currency, by the Bank restriction bill; for by that bill we had wisely discarded gold and silver as the standard of our money; and, in fact, that a pound note did not and ought not to vary with a given quantity of gold, more than with a given quantity of any other commodity. This idea of a currency without a specific standard was, I believe, first advanced by Sir James Steuart,* but no one has yet been able to offer any test by which we could ascertain the uniformity in the value of a money so constituted. Those who supported this opinion did not see, that such a currency, instead of being invariable, was subject to the greatest variations,—that the only use of a standard is to regulate the quantity, and by the quantity the value of the currency—and that without a standard it would be exposed to all the fluctuations to which the ignorance or the interests of the issuers might subject it.

It has indeed been said that we might judge of its value by its relation, not to one, but to the mass of commodities. If it should be conceded, which it cannot be, that the issuers of paper money would be willing to regulate the amount of their circulation by such a test, they would have no means of so doing; for when we consider that commodities are continually varying in value, as compared with each other; and that when such variation takes place, it is impossible to ascertain which commodity has increased, which diminished in value, it must be allowed that such a test would be of no use whatever.

Some commodities are rising in value, from the effects of taxation, from the scarcity of the raw material of which they are made, or from any other cause which increases the difficulty of production. Others again are falling, from improvements in machinery, from the better division of labour, and the improved skill of the workman;

* The writings of Sir James Steuart on the subject of coin and money are full of instruction, and it appears surprising that he could have adopted the above opinion, which is so directly at variance with the general principles he endeavoured to establish.

from the greater abundance of the raw material, and generally from greater facility of production. To determine the value of a currency by the test proposed, it would be necessary to compare it successively with the thousands of commodities which are circulating in the community, allowing to each all the effects which may have been produced upon its value by the above causes. To do this is evidently impossible.

To suppose that such a test would be of use in practice, arises from a misconception of the difference between price and value.

The price of a commodity is its exchangeable value in money only.

The value of a commodity is estimated by the quantity of other things generally for which it will exchange.

The price of a commodity may rise while its value falls, and *vice versâ*. A hat may rise from twenty to thirty shillings in price, but thirty shillings may not procure so much tea, sugar, coffee, and all other things, as twenty shillings did before, consequently a hat cannot procure so much. The hat, then, has fallen in value, though it has increased in price.

Nothing is so easy to ascertain as a variation of price, nothing so difficult as a variation of value; indeed, without an invariable measure of value, and none such exists, it is impossible to ascertain it with any certainty or precision.

A hat may exchange for less of tea, sugar, and coffee, than before, but, at the same time, it may exchange for more of hardware, shoes, stockings, &c., and the difference of the comparative value of these commodities may either arise from a stationary value of one, and a rise, though in different degrees of the other two; or a stationary value in one, and a fall in the value of the other two; or they may have all varied at the same time.

If we say that value should be measured by the enjoyments which the exchange of the commodity can procure for its owner, we are still as much at a loss as ever to estimate value, because two persons may derive very different degrees of enjoyment from the possession of the same commodity. In the above instance, a hat would appear to have fallen in value to him whose enjoyments consisted in tea, coffee, and sugar; while it would appear to have risen in value to him who preferred shoes, stockings, and hardware.

Commodities generally, then, can never become a standard to regulate the quantity and value of money; and although some inconveniences attend the standard which we have adopted, namely, gold and silver, from the variations to which they are subject as commodities, these are trivial, indeed, compared to those which we should have to bear if we adopted the plan recommended.

When gold, silver, and almost all other commodities were raised in price, during the last twenty years, instead of ascribing any part of this rise to the fall of the paper currency, the supporters of an

abstract currency had always some good reason at hand for the alteration in price. Gold and silver rose because they were scarce, and were in great demand to pay the immense armies which were then embodied. All other commodities rose because they were taxed either directly or indirectly, or because, from a succession of bad seasons, and the difficulties of importation, corn had risen considerably in value, which, according to their theory, must necessarily raise the price of commodities. According to them, the only things which were unalterable in value were bank notes, which were therefore eminently well calculated to measure the value of all other things.

If the rise had been 100 per cent., it might equally have been denied that the currency had anything to do with it, and it might equally have been ascribed to the same causes. The argument is certainly a safe one, because it cannot be disproved. When two commodities vary in relative value, it is impossible with certainty to say whether the one rises or the other falls; so that, if we adopted a currency without a standard, there is no degree of depreciation to which it might not be carried. The depreciation could not admit of proof, as it might always be affirmed that commodities had risen in value, and that money had not fallen.

---

## SECTION III.

The Standard, its Imperfections—Variations below without Allowance of the counter-vailing variations above the Standard, their Effects—Correspondence with the Standard the Rule for Paper Money.

While a standard is used, we are subject to only such a variation in the value of money as the *standard* itself is subject to; but against such variation there is no possible remedy, and late events have proved that, during periods of war, when gold and silver are used for the payment of large armies distant from home, those variations are much more considerable than has been generally allowed. This admission only proves that gold and silver are not so good a standard as they have been hitherto supposed,—that they are themselves subject to greater variations than it is desirable a standard should be subject to. They are, however, the best with which we are acquainted. If any other commodity less variable could be found, it might very properly be adopted as the future standard of our money, provided it had all the other qualities which fitted it for that purpose; but, while these metals are the standard, the currency should conform in value to them, and whenever it does not, and the market price of bullion is above the Mint price, the currency is depreciated. This proposition is unanswered, and is unanswerable.

Much inconvenience arises from using two metals as the standard

of our money; and it has long been a disputed point whether gold or silver should by law be made the principal or sole standard of money. In favour of gold it may be said, that its greater value under a smaller bulk eminently qualifies it for the standard in an opulent country; but this very quality subjects it to greater variations of value during periods of war or extensive commercial discredit, when it is often collected and hoarded, and may be urged as an argument against its use. The only objection to the use of silver as the standard is its bulk, which renders it unfit for the large payments required in a wealthy country; but this objection is entirely removed by the substituting of paper money as the general circulation medium of the country. Silver, too, is much more steady in its value, in consequence of its demand and supply being more regular; and as all foreign countries regulate the value of their money by the value of silver, there can be no doubt that, on the whole, silver is preferable to gold as a standard, and should be permanently adopted for that purpose.

A better system of currency may, perhaps, be *imagined* than that which existed before the late laws made bank notes a legal tender; but while the law recognised a standard, while the Mint was open to any person who chose to take thither gold and silver to be coined into money, there was no other limit to the fall in the value of money than to the fall in the value of the precious metals. If gold had become as plentiful and as cheap as copper, bank notes would necessarily have partaken of the same depreciation, and all persons, the whole of whose possessions consisted of money—such as those who hold exchequer bills, who discount merchants' bills, or whose income is derived from annuities, as the holders of the public funds, mortgagees, and many others—would have borne all the evils of such a depreciation. With what justice, then, can it be maintained, that when gold and silver rise, money should be kept by force and by legislative interference at its former value, while no means are, or ever have been, used to prevent the fall of money when gold and silver fall? If the person possessed of money is subject to all the inconveniences of a fall in the value of his property, he ought also to have the benefits of the rise. If a paper currency without a standard be an improvement, let it be proved to be so, and then let the standard be disused; but do not preserve it to the disadvantage solely, never to the advantage, of a class of persons possessed of one out of the thousands of commodities which are circulating in the community, of which no other is subject to any such rule.

The issuers of paper money should regulate their issues solely by the price of bullion, and never by the quantity of their paper in circulation. The quantity can never be too great nor too little while it preserves the same value as the standard. Money, indeed, should be rather *more* valuable than bullion, to compensate for the trifling delay which takes place before it is returned in exchange for bullion at the Mint. This delay is equivalent to a small

seignorage; and coined money, or bank notes, which represent coined money, should in their natural and perfect state, be just so much more valuable than bullion. The Bank of England, by not having paid a due regard to this principle, have in former times been considerable losers. They supplied the country with all the coined money for which it had occasion, and, consequently, purchased bullion with their paper that they might carry it to the Mint to be coined. If their paper had been sustained by limiting its quantity at a value somewhat greater than bullion, they would, in the cheapness of their purchases, have covered all the expenses of brokerage and refining, including the just equivalent for the delay at the Mint.

---

## SECTION IV.

An expedient to bring the English currency as near as possible to perfection.

In the next session of Parliament, the subject of currency is again to be discussed; and, probably, a time will then be fixed for the resumption of cash payments, which will oblige the Bank to limit the quantity of their paper till it conforms to the value of bullion.

A well regulated paper currency is so great an improvement in commerce, that I should greatly regret if prejudice should induce us to return to a system of less utility. The introduction of the precious metals for the purposes of money may with truth be considered as one of the most important steps towards the improvement of commerce and the arts of civilized life; but it is no less true, that, with the advancement of knowledge and science, we discover that it would be another improvement to banish them again from the employment to which, during a less enlightened period, they had been so advantageously applied.

If the Bank should be again called upon to pay their notes in specie, the effect would be to lessen greatly the profits of the Bank without a correspondent gain to any other part of the community. If those who use one and two, and even five pound notes, should have their option of using guineas, there can be little doubt which they would prefer; and thus, to indulge a mere caprice, a most expensive medium would be substituted for one of little value.

Besides the loss to the Bank, which must be considered as a loss to the community, general wealth being made up of individual riches, the state would be subjected to the useless expense of coinage, and, on every fall of the exchange, guineas would be melted and exported.

To secure the public against any other variations in the value of the currency than those to which the standard itself is subject, and, at the same time, to carry on the circulation with a medium

the least expensive, is to attain the most perfect state to which a currency can be brought, and we should possess all these advantages by subjecting the Bank to the delivery of uncoined gold or silver at the Mint standard and price, in exchange for their notes, instead of the delivery of guineas; by which means paper would never fall below the value of bullion without being followed by a reduction of its quantity. To prevent the rise of paper above the value of bullion, the Bank should be also obliged to give their paper in exchange for standard gold at the price of 3*l.* 17s. per ounce. Not to give too much trouble to the Bank, the quantity of gold to be demanded in exchange for paper at the Mint price of 3*l.* 17s. 10½d., or the quantity to be sold to the Bank at 3*l.* 17s., should never be less than twenty ounces. In other words, the Bank should be obliged to purchase any quantity of gold that was offered them, not less than twenty ounces, at 3*l.* 17s.* per ounce, and to sell any quantity that might be demanded at 3*l.* 17s. 10½d. While they have the power of regulating the quantity of their paper, there is no possible inconvenience that could result to them from such a regulation.

The most perfect liberty should be given, at the same time, to export or import every description of bullion. These transactions in bullion would be very few in number, if the Bank regulated their loans and issues of paper by the criterion which I have so often mentioned, namely, the price of standard bullion, without attending to the absolute quantity of paper in circulation.†

The object which I have in view would be in a great measure attained, if the Bank were obliged to deliver uncoined bullion in exchange for their notes at the Mint price and standard; though they were not under the necessity of purchasing any quantity of bullion offered them at the prices to be fixed, particularly if the Mint were to continue open to the public for the coinage of money: for that regulation is merely suggested to prevent the value of money from varying from the value of bullion more than the trifling difference between the prices at which the Bank should buy and sell, and which would be an approximation to that uniformity in its value which is acknowledged to be so desirable.

* The price of 3*l.* 17s. here mentioned, is, of course, an arbitrary price. There might be good reason, perhaps, for fixing it either a little above, or a little below. In naming 3*l.* 17s., I wish only to elucidate the principle. The price ought to be so fixed as to make it the interest of the seller of gold rather to sell it to the Bank than to carry it to the Mint to be coined.

The same remark applies to the specified quantity of twenty ounces. There might be good reason for making it ten or thirty.

† I have already observed that silver appears to me to be best adapted for the standard of our money. If it were made so by law, the Bank should be obliged to buy or sell silver bullion only. If gold be exclusively the standard, the Bank should be required to buy or sell gold only; but if both metals be retained as the standard, as they now by law are, the Bank should have the option which of the two metals they would give in exchange for their notes, and a price should be fixed for silver rather under the standard, at which they should not be at liberty to refuse to purchase.

If the Bank capriciously limited the quantity of their paper, they would raise its value; and gold might appear to fall below the limits at which I propose the Bank should purchase. Gold, in that case, might be carried to the Mint, and the money returned from thence being added to the circulation, would have the effect of lowering its value, and making it again conform to the standard; but it would neither be done so safely, so economically, nor so expeditiously, as by the means which I have proposed; against which the Bank can have no objection to offer, as it is for their interest to furnish the circulation with paper, rather than oblige others to furnish it with coin.

Under such a system, and with a currency so regulated, the Bank would never be liable to any embarrassments whatever, excepting on those extraordinary occasions, when a general panic seizes the country, and when every one is desirous of possessing the precious metals as the most convenient mode of realizing or concealing his property. Against such panics, Banks have no security, *on any system;* from their very nature they are subject to them, as at no time can there be in a Bank, or in a country, so much specie or bullion as the monied individuals of such country have a right to demand. Should every man withdraw his balance from his banker on the same day, many times the quantity of bank notes now in circulation would be insufficient to answer such a demand. A panic of this kind was the cause of the crisis in 1797; and not, as has been supposed, the large advances which the Bank had then made to Government. Neither the Bank nor Government were at that time to blame; it was the contagion of the unfounded fears of the timid part of the community, which occasioned the run on the Bank, and it would equally have taken place if they had not made any advances to Government, and had possessed twice their present capital. If the Bank had continued paying in cash, probably the panic would have subsided before their coin had been exhausted.

With the known opinion of the Bank Directors as to the rule for issuing paper money, they may be said to have exercised their powers without any great indiscretion. It is evident that they have followed their own principle with extreme caution. In the present state of the law, they have the power, without any control whatever, of increasing or reducing the circulation in any degree they may think proper; a power which should neither be intrusted to the State itself nor to any body in it, as there can be no security for the uniformity in the value of the currency when its augmentation or diminution depends solely on the will of the issuers. That the Bank have the power of reducing the circulation to the very narrowest limits will not be denied, even by those who agree in opinion with the Directors, that they have not the power of adding indefinitely to its quantity. Though I am fully assured that it is both against the interest and the wish of the Bank to exercise this

power to the detriment of the public, yet when I contemplate the evil consequences which might ensue from a sudden and great reduction of the circulation, as well as from a great addition to it, I cannot but deprecate the facility with which the State has armed the Bank with so formidable a prerogative.

The inconvenience to which country banks were subjected before the restriction on cash payments, must at times have been very great. At all periods of alarm, or of expected alarm, they must have been under the necessity of providing themselves with guineas, that they might be prepared for every exigency which might occur. Guineas on these occasions were obtained at the Bank in exchange for the larger notes, and were conveyed by some confidential agent, at expense and risk, to the country bank. After performing the offices to which they were destined, they found their way again to London, and in all probability were again lodged in the Bank, provided they had not suffered such a loss of weight as to reduce them below the legal standard.

If the plan now proposed, of paying bank notes in bullion, be adopted, it would be necessary either to extend the same privilege to country banks, or to make bank notes a legal tender, in which latter case there would be no alteration in the law respecting country banks, as they would be required, precisely as they now are, to pay their notes when demanded in Bank of England notes.

The saving which would take place from not submitting the guineas to the loss of weight from the friction which they must undergo in their repeated journeys, as well as of the expenses of conveyance, would be considerable; but by far the greatest advantage would result from the permanent supply of the country, as well as of the London circulation, as far as the smaller payments are concerned, being provided in the very cheap medium, paper, instead of the very valuable medium, gold, thereby enabling the country to derive all the profit which may be obtained by the productive employment of a capital to that amount. We should surely not be justified in rejecting so decided a benefit, unless some specific inconvenience could be pointed out as likely to follow from adopting the cheaper medium.

Much has been ably written on the benefits resulting to a country from the liberty of trade, leaving every man to employ his talents and capital as to him may seem best, unshackled by restrictions of every kind. The reasoning by which the liberty of trade is supported is so powerful, that it is daily obtaining converts. It is with pleasure that I see the progress which this great principle is making amongst those whom we should have expected to cling the longest to old prejudices. In the petitions to Parliament against the corn bill, the advantages of an unrestricted trade were generally recognised, but by none more ably than by the clothiers of Gloucestershire, who were so convinced of the impolicy of restriction, that they expressed a willingness to relinquish every restraint which might

be found to attach to their trade. These are principles which cannot be too widely extended, nor too generally adopted in practice; but if foreign nations are not sufficiently enlightened to adopt this liberal system, and should continue their prohibitions and excessive duties on the importation of our commodities and manufactures, let England set them a good example by benefiting herself; and instead of meeting their prohibitions by similar exclusions, let her get rid as soon as she can of every vestige of so absurd and hurtful a policy.

The pecuniary advantage which would be the result of such a system would soon incline other states to adopt the same course, and no long period would elapse before the general prosperity would be seen to be best promoted by each country falling naturally into the most advantageous employment of its capital, talents, and industry.

Advantageous, however, as the liberty of trade would prove, it must be admitted that there are a few, and a very few exceptions to it, where the interference of Government may be beneficially exerted. Monsieur Say, in his able work on Political Economy, after showing the advantages of a free trade, observes,* that the interference of Government is justifiable only in two cases; first, to prevent a fraud, and secondly, to certify a fact. In the examinations to which medical practitioners are obliged to submit, there is no improper interference; for it is necessary to the welfare of the people, that the fact of their having acquired a certain portion of knowledge respecting the diseases of the human frame should be ascertained and certified. The same may be said of the stamp which Government puts on plate and money; it thereby prevents fraud, and saves the necessity of having recourse on each purchase and sale to a difficult chemical process. In examining the purity of drugs sold by chemists and apothecaries, the same object is had in view. In all these cases, the purchasers are not supposed to have, or to be able to acquire, sufficient knowledge to guard them against deception; and Government interferes to do that for them which they could not do for themselves.

But if the public require protection against the inferior money which might be imposed upon them by an undue mixture of alloy, and which is obtained by means of the Government stamp when metallic money is used; how much more necessary is such protection when paper-money forms the whole, or almost the whole, of the circulating medium of the country? Is it not inconsistent, that Government should use its power to protect the community from the loss of one shilling in a guinea, but does not interfere to protect them from the loss of the whole twenty shillings in a one-pound note? In the case of Bank of England notes, a guarantee is taken by the Government for the notes which the Bank issue; and the

* Economie Politique, livre i. chap. 17.

whole capital of the Bank, amounting to more than 11½ millions, must be lost before the holders of their notes can be sufferers from any imprudence they may commit. Why is not the same principle followed with respect to the country banks? What objection can there be against requiring of those who take upon themselves the office of furnishing the public with a circulating medium, to deposit with Government an adequate security for the due performance of their engagements? In the use of money, every one is a trader; those whose habits and pursuits are little suited to explore the mechanism of trade are obliged to make use of money, and are no way qualified to ascertain the solidity of the different banks whose paper is in circulation; accordingly, we find that men living on limited incomes, women, labourers, and mechanics of all descriptions, are often severe sufferers by the failures of country banks, which have lately become frequent beyond all former example. Though I am by no means disposed to judge uncharitably of those who have occasioned so much ruin and distress to the middle and lower classes of the people, yet, it must be allowed by the most indulgent, that the true business of banking must be very much abused before it can be necessary for any bank, possessing the most moderate funds, to fail in their engagements; and I believe it will be found, in by far the major part of these failures, that the parties can be charged with offences much more grave than those of mere imprudence and want of caution.

Against this inconvenience the public should be protected, by requiring of every country bank to deposit with Government, or with commissioners appointed for that purpose, funded property or other Government security, in some proportion to the amount of their issues.

Into the details of such a plan it is not necessary to enter very minutely. Stamps for the issue of notes might be delivered on the required deposit being made, and certain periods in the year might be fixed upon, when the whole or any part of the security should be returned, on proof being given, either by the return of the cancelled stamps, or by any other satisfactory means, that the notes for which it was given were no longer in circulation.

Against such a regulation no country bank of respectability would object; on the contrary, it would, in all probability, be most acceptable to them, as it would prevent the competition of those who are at present so little entitled to appear in the market against them.

## SECTION V.

A Practice which creates a great Mass of Mercantile Inconvenience—Remedy proposed.

After all the improvements, however, that can be made in our system of currency, there will yet be a temporary inconvenience to which the public will be subject, as they have hitherto been, from the large quarterly payment of dividends to the public creditors,—an inconvenience which is often severely felt, and to which, I think, an easy remedy might be applied.

The national debt has become so large, and the interest which is paid quarterly upon it is so great a sum, that the mere collecting the money from the receivers general of the taxes, and the consequent reduction of the quantity in circulation, just previously to its being paid to the public creditor in *January*, *April*, *July*, and *October*, occasions, for a week or more, the most distressing want of circulating medium. The Bank, by judicious management, discounting bills probably very freely, just at the time that these monies are paid into the Exchequer, and arranging for the receipt of large sums immediately after the payment of the dividends, have, no doubt, considerably lessened the inconvenience to the mercantile part of the community. Nevertheless, it is well known to those who are acquainted with the money market that the distress for money is extreme at the periods I have mentioned. Exchequer bills, which usually sell at a premium of five shillings per 100*l*., are at such times at so great a discount that, by the purchase of them then, and the re-sale when the dividends are paid, a profit may often be made equal to the rate of 15 to 20 per cent. interest for money. At these times, too, the difference between the price of stock for ready money, and the price for a week or two to come, affords a profit, to those who can advance money, even greater than can be made by employing money in the purchase of exchequer bills. This great distress for money is frequently, after the dividends are paid, followed by as great a plenty, so that little use can for some time be made of it.

The very great perfection to which our system of economizing the use of money has arrived, by the various operations of banking, rather aggravates the peculiar evil of which I am speaking; because, when the quantity of circulation is reduced, in consequence of the improvements which have been adopted in the means of effecting our payments, the abstraction of a million or two from that reduced circulation becomes much more serious in its effects, being so much larger a proportion of the whole circulation.

On the inconvenience to which trade and commerce are exposed by this periodical distress for money, I should think no difference

of opinion can possibly exist. The same unanimity may not prevail with respect to the remedy which I shall now propose.

Let the Bank be authorised by Government to deliver the dividend warrants to the proprietors of stock a few days *before* the receivers general are required to pay their balances into the Exchequer.

Let these warrants be payable to the bearer exactly in the same manner as they now are.

Let the day for the payment of these dividend warrants in bank notes be regulated precisely as it now is.

If the day of payment could be named on or before the delivery of the warrants, it would be more convenient.

Finally, let these warrants be receivable into the Exchequer from the receivers general, or from any other person who may have payments to make there, in the same manner as bank notes, the persons paying them allowing the discount for the number of days which will elapse before they become due.

If a plan of this sort were adopted, there could never be any particular scarcity of money before the payment of the dividends, nor any particular plenty of it after. The quantity of money in circulation would be neither increased nor diminished by the payment of the dividends. A great part of these warrants would, from the stimulus of private interest, infallibly find their way into the hands of those who had public payments to make, and from them to the Exchequer. Thus, then, would a great part of the payments to Government, and the payments from Government to the public creditor, be effected without the intervention of either bank notes or money, and the demands for money for such purposes, which are now so severely felt by the mercantile classes, would be effectually prevented.

Those who are well acquainted with the economical system now adopted in London throughout the whole banking concern, will readily understand that the plan here proposed is merely the extension of this economical system to a species of payments to which it has not yet been applied. To them it will be unnecessary to say anything further in recommendation of a plan, with the advantages of which in other concerns they are already so familiar.

---

## SECTION VI.

The public services of the Bank excessively overpaid—Remedy proposed.

Mr Grenfell has lately called the attention of Parliament to a subject of importance to the financial interests of the community. At a time when taxes bear so heavily on the people, brought upon them by the unexampled difficulties and expenses of the war, a

resource so obvious as that which he has pointed out will surely not be neglected.

It appears by the documents which Mr Grenfell's motions have produced, that the Bank have, for many years, on an average, had no less a sum of the public money in their hands, on which they have obtained an interest of 5 per cent., than 11 millions; and the only compensation which the public have derived for the advantage which the Bank have so long enjoyed is a loan of 3 millions from 1806 to 1814, a period of eight years, at an interest of 3 per cent., —and a farther loan of 3 millions, without interest, which the Bank, in 1808, agreed to afford the public till six months after the definitive treaty of peace, and which by an act of last session was continued without interest till April 1816 From 1806 to 1816, a period of ten years, the Bank have gained 5 per cent. per annum on 11,000,000*l.*, which will amount to . . £5,500,000

| | | |
|---|---|---|
| During the same time, the public have received the following compensation:—the difference between 3 per cent. and 5 per cent. interest, or 2 per cent. per annum on 3,000,000*l.* for eight years, or . . . . . | £480,000 | |
| From 1808 to 1816, the public will have had the advantage of a loan of 3,000,000*l.* without interest, which at 5 per cent. per annum would amount in eight years to . . | 1,200,000 | |
| | | 1,680,000 |
| Balance gained by the Bank, . . . | | £3,820,000 |

3,820,000*l.* will have been gained by the Bank in ten years, or 382,000*l.* per annum, for acting as bankers to the public, when, perhaps, the whole expense attending this department of their business does not exceed 10,000*l.* per annum.

In 1807, when these advantages were first noticed by a committee of the House of Commons, it was contended by many persons, in favour of the Bank, and by Mr Thornton, one of the directors, who had been governor, that the gains of the Bank were in proportion to the amount of their notes in circulation, and that no advantage was derived from the public deposits further than as they enabled the Bank to maintain a larger amount of notes in circulation. This fallacy was completely exposed by the committee.

If Mr Thornton's argument were correct, no advantage whatever would have resulted to the Bank from the deposits of the public money—for those deposits do not enable them to maintain a larger amount of notes in circulation.

Suppose that, before the Bank had any of the public deposits, the amount of their notes in circulation were 25 millions, and that they derived a profit by such circulation. Suppose, now, that Government received 10 millions for taxes in bank notes, and deposited them permanently with the Bank. The circulation would be immediately reduced to 15 millions, but the profits of the Bank would be precisely the same as before; though 15 millions only were then in circulation, the Bank would obtain a profit on 25 mil-

lions. If, now, they again raise the circulation to 25 millions by employing the 10 millions in discounting bills, purchasing exchequer bills, or advancing the payments on the loan for the year for the holders of scrip receipts, will they not have added the interest of 10 millions to their usual profits, although they should at no time have raised their circulation above the original sum of 25 millions.

That the increase in the amount of public deposits should enable the Bank to add to the amount of their notes in circulation, is neither supported by theory nor experience. If we attend to the progress of these deposits we shall observe, that at no time did they increase so much as from 1800 to 1806, during which time there was no increase in the circulation of notes of *5l.* and upwards; but, from 1807 to 1815, when there was no increase whatever in the amount of public deposits, the amount of notes of *5l.* and upwards had increased 5 millions.

Nothing can be more satisfactory on the subject of the profits of the Bank, from the public deposits, than the report of the committee on public expenditure, in 1807. It is as follows:—

"In the evidence upon this part of the subject, it is admitted that the notes of the Bank are productive of profit; but it appears to be assumed that the Government balances are only so in proportion as they tend to augment the amount of notes; whereas your committee are fully persuaded that both balances and notes are and must necessarily be productive.

"The funds of the Bank, which are the sources of profit, and which constitute the measure of the sum which they have to lend (subject only to a deduction on account of cash and bullion) may be classed under three heads.

"*First*, The sum received from their proprietors as capital, together with the savings which have been added to it.

"*Secondly*, The sum received from persons keeping cash at the Bank. This sum consists of the balances of the deposit accounts, both of Government and of individuals. In 1797, this fund, including all the balances of individuals, was only 5,130,140*l.* The present Government balances alone have been stated already at between 11 and 12 millions, including bank notes deposited in the Exchequer.*

"*Thirdly*, The sum received in return for notes put into circulation. A correspondent value for every note must originally have been given, and the value thus given for notes constitutes one part of the general fund to be lent at interest. A note-holder, indeed, does not

* By some of my readers the words "including bank notes deposited in the Exchequer" may not be understood. They are bank notes never put into circulation; neither are they included in any return made by the Bank. They are called at the Exchequer special notes, and are mere vouchers (not having even the form of bank notes) of the payment to the Bank from the Exchequer of such monies as are daily received at the latter office. They are the record, therefore, of a part of the public deposits lodged with the Bank.

differ essentially from a person to whom a balance is due. Both are creditors of the Bank; the one holding a note, which is the evidence of the debt due to him, the other having the evidence of an entry in the ledger of the Bank. *The sum at all times running at interest will be in exact proportion to the amount of these three funds combined, deduction being made for the value of cash and bullion.*"*

Every word of this statement appears to me unanswerable, and the principle laid down by the committee would afford us an infallible clue to ascertain the net profits of the Bank, if we knew the amount of their savings,—their cash and bullion, and their annual expenses, as well as the other particulars, are known to us.

It will be seen by the above extract, that in 1807 the amount of the public deposits was between 11 and 12 millions, whereas, in 1797 the amount of public and private deposits were, together, only equal to 5,130,140*l.* In consequence of this report Mr Perceval applied to the Bank, on the part of the public, for a participation in their additional profits from this source, either in the way of an annual payment or as a loan of money without interest; and, after some negociation, a loan of 3 millions was obtained without interest, payable six months after a definitive treaty of peace.

The same report also notices the exorbitant allowance which was made to the Bank for the management of the national debt. The public paid the Bank at that time at the rate of 450*l.* per million for management; and it was stated by the committee, that the additional allowance for management in the ten years ending in 1807, in consequence of the increase of the debt, was more than 155,000*l.*, whilst the "whole increase of the officers who actually transact the business, in the last eleven years, is only 137, whose annual expense may be from 18,449*l.* to 23,290*l.*, the addition to the other permanent charges being probably about one-half or two-thirds of that sum."

After this report, a new agreement was made with the Bank for the management of the public debt.

450*l.* per million was to be paid if the unredeemed capital exceeded 300 millions, but fell below 400 millions.

340*l.* per million if the capital exceeded 400 millions, but fell below 600 millions.

300*l.* per million on such part of the public debt as exceeded 600 millions.

* In 1797 the Bank stated their finances to be as follows:—

| | |
|---|---|
| Bank-notes in circulation, | £8,640,000 |
| Public and private deposits, | 5,132,140 |
| Surplus capital, | 3,826,890 |
| | £17,597,030 |

On the other side of the account they showed in what securities these funds were invested, and, with the exception of cash and bullion, and a small sum for stamps, they were all yielding interest and profit to the Bank.

Besides these allowances, the Bank are paid 800*l.* per million for receiving contributions on loans; 1000*l.* on each contract for lotteries; and 1250*l.* per million, or $\frac{1}{8}$th per cent., for receiving contributions on the profits arising from property, professions, and trades. This agreement has been in force ever since.

As the period is now approaching when the affairs of the Bank will undergo the consideration of Parliament, and when the agreement which regards the public deposits will expire, by the payment of the 3 millions borrowed of the Bank without interest, in 1808; no time can be more proper than the present to point out the undue advantages which were given to the Bank in the terms settled between them and Mr Perceval in 1808. This, I apprehend, was the chief object of Mr Grenfell, for it is not alone to the additional advantages which the Bank have obtained since the agreement in 1808 that he wishes to call the attention of Parliament, but also to that agreement itself, under which the public are now paying, and have long paid, in one shape or another, enormous sums for very inadequate services.

Mr Grenfell probably thinks, and if he does I most heartily concur with him, that a profit of 382,000*l.* per annum, which is the sum at which the advantages of the public deposits to the Bank, for a period of ten years, may be calculated, as will be seen, page 412, very far exceeds the just compensation which the public ought to pay to the Bank for doing the mere business of bankers; particularly when, in addition to this sum, 300,000*l.* per annum is now also paid for the management of the national debt, loans, &c.; when, moreover, the Bank have been enjoying, ever since the renewal of their charter, immense additional profits, from the substitution of paper money in lieu of a currency consisting partly of metallic and partly of paper money, which additional profits were not in contemplation, either of Parliament which granted, or of the Bank which obtained that charter, when the bargain was made in 1800, and of which they might be in a great measure deprived by the repeal of the bill which restricts them from paying their notes in specie. Under these circumstances it must, I think, be allowed, that in 1808 Mr Perceval by no means obtained for the public what they had a right to expect; and it is to be hoped that, with the known sentiments of the Chancellor of the Exchequer as to the right of the public to participate in the additional advantages of the Bank arising from public deposits, terms more consonant with the public interest will now be insisted on.

It is true that the above sums, though paid by the public, are not the net profits of the Bank; from them a deduction must be made for the expenses of that part of the Bank establishment which is exclusively appropriated to the public business; but those expenses do not probably exceed 150,000*l.* per annum.

The committee on public expenditure stated in their report to the House of Commons in 1807, "that the number of clerks

employed by the Bank exclusively or principally in the public business, was

| | | |
|---|---|---|
| In 1786, | . . | 243 |
| 1796, | . . | 313 |
| 1807, | . . | 450 |

whose salaries, it is presumed, may be calculated at an average of between 120*l.* and 170*l.* for each clerk: taking them at 135*l.*, which exceeds the average of those employed in the South Sea House, the sum is . . . £60,750
At 150*l.*, the sum is . . . . 67,500
At 170*l.*, the sum is . . . . 76,500
Either of which two last sums would be sufficient to provide a superannuation fund.

"The very moderate salaries," the report continues, "received by the governor, deputy governor, and directors, amount to £8000
"Incidental expenses may be estimated at about . 15,000
"Building additional and repairs, at about . . 10,000
"Law expenses and loss by frauds, forgeries, at about 10,000

£43,000
"Add the largest estimate for clerks, . . . 76,500

Total, £119,500"

Allowing, then, the very highest computation of the committee, the expense of managing the public business in 1807, including the *whole* of the salaries of the directors, incidental expenses, additional buildings and repairs, together with law expenses and loss by frauds and forgeries, amounted to 119,500*l.*

The committee also stated, that the increased expenses of the Bank for managing the public business, after a period of eleven years, from 1796 to 1807, were about 35,000*l.* per annum, on an increased debt of 278 millions, being at the rate of 126*l.* per million. From 1807 to the present time the unredeemed debt managed by the Bank has increased from about 550 millions to about 830 millions, or about 280 millions,—little more than from 1796 to 1807, and therefore at the same rate of 126*l.* per million, would be attended with a similar expense of 35,000*l.*: but, "as the rate of expense diminishes as the scale of business enlarges," I shall estimate it at 30,500*l.*, which, added to 119,500*l.*, the expenses of 1807, will make the whole expense of managing the public business amount to 150,000*l.* The auditors of public accounts in 1786 estimated that 187*l.* 10s. per million was sufficient to pay the expenses of managing a debt of 224 millions. The estimate which I have just made is about 180*l.* per million, on a debt of 830 millions, which will appear an ample allowance when it is considered in what different proportions the debt itself increases, compared with the work which it occasions.

Supposing, then, the expenses to be about 150,000*l.*, the net

profits obtained by the Bank by all its transactions with the public this year will be as follows:—

| | |
|---|---|
| Charge for managing the national debt for one year, ending the 1*st February* 1816,* . . . . . | £254,000 |
| For receiving contributions on loans, at 800*l.* per million, on 36 millions, . . . . . | 28,800 |
| Ditto, lotteries, . . . . . | 2,000 |
| Average profits on public deposits,† . . . | 382,000 |
| Allowance for receiving property tax, . . | 3,480 |
| | £670,280 |
| Expenses attending the management of public business, | 150,000 |
| Net profits of the Bank paid by the public, . | £520,280 |

Of this vast sum, 372,000*l.* probably arises from the deposits alone, an expense which might almost wholly be saved to the nation, if Government were to take the management of that concern into their own hands, by having a common treasury, on which each department should draw, in the same manner as they now do on the Bank of England, investing the 11 millions, which appears to be the average deposits in exchequer bills, a part of which might be sold in the market, if any unforeseen circumstances should reduce the deposits below that sum.

The resolutions,‡ proposed by Mr Grenfell, and on which Parliament will decide the next session, after briefly recapitulating the facts contained in the documents which his motions have produced, conclude thus:—"That this House will take into early consideration the advantages derived by the Bank, as well from the management of the national debt, as from the amount of balances of public money remaining in their hands, with the view to the adoption of such an arrangement, when the engagements now subsisting shall have expired, as may be consistent with what is due to the interest of the public, and the rights, credit, and stability of the Bank of England."

Mr Mellish, the governor of the Bank, has also proposed resolutions to be submitted to Parliament next session. These resolutions§ admit all the facts stated by Mr Grenfell's; they mention also one or two trifling services which the Bank perform for the public, one without charge,‖ and another at a less charge than is incurred by

* This charge is calculated on the debt as it stood in February 1815: more than 75 millions have been added since. See Appendix.

† See page 412.

‡ See Appendix. § See Appendix.

‖ The one without charge is the calculating the deduction from each dividend warrant for property tax.

The other is receiving contributions from those who pay their property tax into the Bank, for which the Bank receives 1,250*l.* per million, or one-eighth per cent.

If the collector had gone from house to house to receive this money, he would have

employing the ordinary collector of taxes. But the 8th and 9th resolutions advance an extraordinary pretension,—they appear to question whether *on the expiration of the loan of* 3,000,000*l. in* 1816, Government will be at liberty before 1833, the time when the charter will expire, to demand any compensation whatever from the Bank for the advantages they derive from the public deposits, or to make any new arrangement respecting the charge for management of the national debt. These resolutions are as follows:

8th. "That by the 39 and 40 Geo. 3. c. 28. s. 13, it is enacted, 'That during the continuance of the charter, the Bank shall enjoy all privileges, profits, emoluments, benefits, and advantages whatsoever, which they now possess and enjoy by virtue of any employment by or on behalf of the public.

"That previously to such renewal of their charter, the Bank was employed as the public banker, in keeping the cash of all the principal departments in the receipt of the public revenue, and in issuing and conducting the public expenditure, &c.

9th. "That whenever the engagements now subsisting between the public and the Bank shall expire, it may be proper to consider the advantages derived by the Bank from its transactions with the public, with a view to the adoption of such arrangements as may be consistent with those principles of equity and good faith, which ought to prevail in all transactions between the public and the Bank of England.'"*

had an allowance of five pence per pound, which would have cost the public 58,007*l.* instead of 3,480*l.* paid to the Bank.

Perhaps no part of the business of the Bank is more easily transacted than this which they have pointed out. Instead of being under-paid, it appears to me to be paid most liberally.

The saving to the public is really effected by the money being brought to one focus, instead of being collected from various quarters. The Bank appear to consider the rule, by which they are to measure the moderation of their charges, to be the saving which they effect to their employer, rather than the just compensation for their own trouble and expense. What would they think of an engineer, if in his charge for the construction of a steam-engine he should be guided by the value of the labour which the engine was calculated to save, and not by the value of the labour and materials necessary to its construction.

* Since the first edition of this work was published, the first Lord of the Treasury, and the Chancellor of the Exchequer, have proposed to the Bank that they shall continue the advance of 3 millions, which would have been due in April next, for two years without interest:—and further, that the Bank shall advance the sum of 6 millions at 4 per cent. for two years certain, and shall continue the same for three years longer from such period, subject to repayment upon six months' notice, to be given at any time between the 10th October in any year and the 5th of April following, either by the Lords of the Treasury to the Bank, or by the Bank to their Lordships. This proposal was agreed to by a General Court of Proprietors of Bank Stock, held, on the 8th of February, for the purpose of considering the same.

At this general court, on asking for some explanation respecting the deposit of the public money at the end of the two years, I noticed with approbation the departure of the Bank from the claim which they had set up in the above resolutions, in which they appeared to me to assert the *right* of the Bank to the custody of the public money without paying any remuneration whatever; to which the governor of the Bank, Mr Mellish, replied, that I had totally misconceived the meaning of those resolutions, and he was sure if I read them again with attention, I should be convinced that no such

That the Bank should now *for the first time* intimate that their charter precludes the public from making any demand on the Bank for a participation in the advantages arising from the public deposits, after all that has passed since 1800 on that subject, does indeed appear surprising.

The charter of the Bank was renewed in 1800 for twenty-one years, from its expiration in 1812; consequently it will not now terminate till 1833. But since 1800, so far from the Bank asserting any such claim of right to the whole advantages of the public deposits, they in 1806 lent Government 3,000,000*l.* till 1814, at 3 per cent. interest, and in 1808 they lent 3,000,000*l.* more till the termination of the war, without interest, and in the last session of Parliament the loan of 3,000,000*l.* was continued without interest till *April* 1816. These loans were expressly granted, in consideration of the increase in the amount of the public deposits.

The committee on public expenditure, in their report (1807), to which I have already referred, speaking of the loan of 3,000,000*l.* to the public in 1806, at 3 per cent. interest, observe, "But the transaction is most material in another view, as it evinces that the agreement made in 1800 was not considered either by those who acted on the part of the public, or by the Bank Directors themselves, as a bar against further participation, whenever the increase of their profits derived from the public, and the circumstances of public affairs, might, upon similar principles, *make such a claim reasonable and expedient.*" And what is Mr Perceval's language at the same period, when, in consequence of this report, he applied for and obtained a loan of 3,000,000*l.* till the end of the war? In his letter to the governor and deputy governor of the Bank, dated the 11th of *January* 1808, he says, "I think it necessary to observe, that the proposal to confine the duration of the advance, by way of loan, or of the annual payment into the Exchequer, to the period of the present war, and twelve months after the termination of it, is by no means to be understood as an admission on my part that, at the expiration of such period, the public will no longer be entitled to look to any advantage from the continuance of such deposits; but simply as a provision by which the Government and the Bank may be respectively enabled, under the change in the state of affairs which will then have taken place, probably affecting the amount of public balances in the hands of the latter, to consider of a new arrangement." On the 19th of *January*, Mr Perceval's proposals were submitted to the Court of Directors in a more

construction could be put on them. I am glad the Bank disclaim having had the intention of depriving the public of the advantage which they have enjoyed since the report of the Committee on Public Expenditure; though I regret, that they have expressed themselves so obscurely, as to have given me and many others a different impression. The resolutions still appear to me to assert that the privilege of being public banker was for a valuable consideration secured to the Bank during the continuance of their charter, and that at the expiration of that engagement, and not before, it might be proper to consider of a new arrangement.

official form,—they conclude thus: "And it is understood that *during the continuance of this advance by the Bank*, no alteration is to be proposed in the general course of business between the Bank and the Exchequer, nor any regulation introduced by which the accounts, now by law directed to be kept at the Bank, shall be withdrawn from thence." These proposals were recommended for acceptance by the Court of Directors to the Court of Proprietors, and were, without comment, agreed to on the 21st of *January*.

Mr Vansittart, in his application to the Bank in *November* 1814, relative to continuing the loan of 3,000,000*l*., which would have become due on the 17th of *December* following, till *April* 1816, uses these words: "But I beg to be distinctly understood as not departing from the reservation made by the late Mr Perceval, in his letter to the governor and deputy governor of the Bank, of the 11th *January* 1808, by which he guarded against the possibility of any misconstruction which could preclude the public, after the expiration of the period of the loan then agreed upon, from asserting its title to future advantage from the continuance or increase of such deposits,—and as adhering generally to the principles maintained by Mr Perceval, in the discussion which then took place."

No comment whatever appears to have been made by the Bank on these observations: a General Court of Proprietors was called, and the loan of 3 millions was continued till *April* 1816.

It surely will not come with a very good grace now from the Bank, to insist that the agreement of 1800 precludes the public from demanding any compensation for the advantages which the Bank have derived from the increase of the public deposits since that period, when, on so many occasions, the right of participation has been so expressly claimed on the part of Government, and acceded to by the Court of Directors.

In addition to these strong facts, by a reference to the basis on which the agreement for the renewal of the charter was founded, as detailed by Mr Thornton in his evidence before the committee of public expenditure in 1807,* it will still further appear that the Bank have no claim whatever to shelter themselves under their charter, in refusing to let the public participate in the profits which have accrued from the augmentation of the public deposits.

It must be recollected that Mr Thornton was, in 1800, the governor of the Bank,—that he was the negotiator, on the part of the Bank, with Mr Pitt, for the renewal of the charter,—and that, in fact, the idea of renewing the charter so long before its expiration originated with him. Mr Thornton told the committee, that the only sums of public money on which the Bank derived profit, and which were referred to by him and Mr Pitt, with a view to settle the compensation which the public should receive for prolonging the exclusive privileges of the Bank, were those lodged at the Bank for the payment of the growing dividends, and for the

* Report, page 104.

quarterly issues to the commissioners for the redemption of the national debt.

The first of these sums Mr Thornton estimates to be on an average . . . . . £2,500,000*
And it appears by an account lately produced that the second amounted to . . . 615,842

£3,115,842

Mr Thornton expressly states, that all other public accounts were of trifling amount, and "the probable augmentation of the balances of public money from the various departments of Government was not taken into the account,"—"that such augmentation was neither adverted to nor provided for."

If, then, it is acknowledged by the very negotiator on the part of the Bank that the probable augmentation of the public balances formed no part of the consideration in settling the pecuniary remuneration which was given to the public for continuing to the Bank their exclusive privileges, how can it now, with any justice, be contended by the Bank, that the profits derived from those augmented balances, which were "neither adverted to nor provided for," belong of right exclusively to the Bank, and that the public have no claim either to participate in them, or to withdraw the balances to any use to which they may think proper to apply them.

It is to be observed that Mr Thornton, in his evidence before alluded to, represented all the other public accounts, excepting the two before mentioned, as of trifling amount; but, by accounts which were last session presented to Parliament, it appears that in 1800, the year to which Mr Thornton's evidence refers, when the charter was renewed, the public balances of all descriptions deposited with the Bank amounted to 6,200,000*l.*, exceeding the aggregate amount stated by Mr Thornton by 3 millions, which he would, if he had been aware of this fact, hardly have called "a trifling amount."

If, then, the fact of this large additional deposit did not come under the consideration of Mr Thornton and Mr Pitt, at the time of renewing the charter,—if no part of the remuneration which the public then received was founded on this fact, the large amount of public deposits in 1800, so far from entitling the Bank to retain the whole profits arising from the still larger deposits at the present period, binds them in justice to be particularly liberal in any new engagement they may now make with the public, as affording a remuneration for a profit so long enjoyed, which, it is to be presumed, they would not have been allowed to enjoy, if the facts had

* By an account laid before Parliament last session it appears, that the amount of exchequer bills and bank notes deposited with the Exchequer as cash, amounted, on an average of the year ending *March* 1800, to 3,690,000*l.*

been clearly known and considered at the time of settling the terms on which the charter was renewed.

But, whether known or not known, must have been of little consequence in Mr Thornton's estimation, whose opinion, that the profits of the Bank were not increased by the augmentation of the public balances, otherwise than as they contributed to increase the amount of bank notes in circulation, is so emphatically given.

Is it not lamentable to view a great and opulent body like the Bank of England exhibiting a wish to augment their hoards by undue gains wrested from the hands of an overburthened people? Ought it not rather to have been expected that gratitude for their charter, and the unlooked-for advantages with which it has been attended,—for the bonuses and increased dividends which they have already shared, and for the great undivided treasure which it has further enabled them to accumulate, would have induced the Bank voluntarily to relinquish to the State the whole benefit which is derived from the employment of 11 millions of the public money, instead of manifesting a wish to deprive them of the small portion of it which they have for a few years enjoyed?

When the rate of charge for the management of the national debt was under discussion, in 1807, Mr Thornton said "that, in a matter between the public and the Bank, he was sure nothing but a fair compensation for trouble, risk, and actual losses, and the great responsibility that attaches to the office, would be required."

How comes it that the language of the Directors of the present day is so much changed? Instead of expecting only a fair compensation for trouble, risk, and actual losses, they endeavour to deprive the public even of the inadequate compensation which they have hitherto received, and appeal now, for the first time, to their charter for their right to hold the public money, and to enjoy all the profit which can be derived from its use, without allowing the least remuneration to the public.

If the charter were as binding as the Bank contend for, a great public company, possessing so advantageous a monopoly, and so intimately connected with the State, might be expected to act on a more liberal policy towards its generous benefactors.

Till the last session of Parliament, the Bank were also particularly favoured in the composition which they paid for stamp duties. In 1791, they paid a composition of 12,000*l.* per annum, in lieu of all stamps either on bills or notes. In 1799, on an increase of the stamp-duty, this composition was advanced to 20,000*l.*, and an addition of 4,000*l.*, raising the whole to 24,000*l.*, was made for the duty on notes under 5*l.*, which the Bank had then begun to circulate. In 1804, an addition of not less than 50 per cent. was made to the stamp-duty imposed by the act of 1799 on notes under 5*l.*, and a considerable increase on the notes of a higher value; and, although the Bank circulation of notes under 5*l.* had increased from one and a half to four and a half millions, and the amount of

notes of a higher description had also increased, yet the whole composition of the Bank was only raised from 24,000*l.* to 32,000*l.* In 1808, there was a further increase of 33 per cent. to the stamp-duty, at which time the composition was raised from 32,000*l.* to 42,000*l.* In both these instances the increase was not in proportion even to the increase of duty, and no allowance whatever was made for the increase in the amount of the Bank circulation.

In the last session of Parliament, on a further increase of the stamp-duty, the principle was for the first time established, that the Bank should pay a composition, in some proportion to the amount of their circulation. It is now fixed as follows. Upon the average circulation of the three preceding years, the Bank is to pay at the rate of 3500*l.* per million, without reference to the classes or value of the notes of which the aggregate circulation may consist.

The average of the Bank circulation for three years, ending 5th *April* 1815, was 25,102,600*l.*, and upon this average they will pay this year about 87,500*l.*

Next year the average will be taken upon the three years ending in *April* 1816, and if it differs from the last, the duty will vary accordingly.

If the same course had been followed now as in 1804 and 1808, the Bank would have had to pay, even with the additional duty, only 52,500*l.*, so that 35,000*l.* per annum has been saved to the public, by Parliament having at last recognised the principle which should have been adopted in 1799, and by the neglect of which the public have probably been losers, and the Bank consequently gainers, of a sum little less than 500,000*l.*

---

## SECTION VII.

Bank Profits and Savings—Misapplication—Proposed Remedy.

I HAVE hitherto been considering the profits of the Bank as they regard the public, and have endeavoured to show that they have greatly exceeded what a just consideration for *their* rights and interests could warrant.—I propose now to consider them in relation to the interests of the proprietors of Bank stock, for which purpose I shall endeavour to state a basis on which the profits of the Bank may be calculated, with a view to ascertain what the accumulated savings of the Bank now are. If we knew accurately the expenses of the Bank, and the amount of cash and bullion which they may at different times have had in their hands, we should have the means of making a calculation on this subject which would be a very near approximation to the truth.

The profits of the Bank are derived from sources which are well known. They arise, as has been already stated, from the interest on public and private deposits,—the interest on the amount of their

notes in circulation, after deducting the amount of cash and bullion, —the interest on their capital and savings,—the allowance paid them for the management of the public debt,—the profits from their dealings in bullion, and from the destruction of their notes.— All these form the gross profits of the Bank, from which must be deducted only their expenses, the stamp-duty, and the property tax, in order to ascertain their net profits.

Under the head of expenses must be included all the charges attending the management of the national debt, as well as those incurred by the proper business of the Bank. In estimating the former of these charges, I have already stated my grounds for believing that it could not exceed 150,000*l.* In the management of the public business, it was stated by the committee on public expenditure, that 450 clerks were employed in 1807, and it is probable that the number may now be increased to between 500 and 600.

It has also, I understand, been stated from the best authority in Parliament, that the Bank employed in the whole of their establishment about 1000 clerks; consequently, if 500 are employed exclusively on the public business, 500 more must be engaged in the business of the Bank. Supposing now the expenses to bear some regular proportion to the number of clerks employed, as 150,000*l.* has been calculated to be the expense attending the employment of 500 clerks in the public business, we may estimate a like expense to be incurred by the employment of the other 500, and therefore the whole expenses of the Bank to be at the present time about 300,000*l.*, including all charges whatsoever.*

But although this large sum is now expended, it must have been of gradual growth since 1797; when, probably, the whole expenses of the establishment were not more than one-half the present amount. In the first place, since 1797, the amount of bank notes in circulation has increased from about 12 millions to 28 millions, but the expenses of their circulation, instead of increasing in the same proportion only, have at least, increased as one to ten.

The amount of notes of 5*l.* and upwards has been raised from 12 to 18 millions, and if the average value of notes, of all descriptions above 5*l.*, be even so low as 15*l.*, a circulation of 12 millions would consist of 800,000 notes, and a circulation of 18 millions of 1,200,000 notes, an increase in the proportion, as one to one and one-half; but the 9 millions of notes under 5*l.*, which are now in

* It has been remarked, that a sufficient allowance is not made in my calculations for the losses of the Bank by bad debts in consequence of the bad bills which they occasionally discount. Their losses from this source, I am told, are often very large. On the other hand, I have been informed that the profits of the Bank from private deposits, for which I have taken no credit, must be considerable, as the East India Company and many other public boards keep their cash at the Bank.

A deduction from the Bank profits should have been made for their loss by Aslett, and for the expenses attending their military corps. My argument will not be affected by their surplus capital being only 12 or 11 instead of 13 millions.—*Note to Second Edition.*

circulation, have been wholly created since 1797, and if they consist of 5 millions of notes of 1*l.*, and 2 millions of notes of 2*l.*, a number of 7 millions of notes has been further added to the circulation, and the whole number of notes has been raised since 1797, from 800,000 to 8,200,000, or as one to ten, and at an expense ten times greater than was incurred at that time, the expense being in proportion to the number, and not to the amount of notes. It is probable, too, that the notes of 1*l.* and 2*l.*, which are so constantly used in the circulation, are more often renewed than notes of a higher value.

The public debt, too, under the management of the Bank, is more than doubled since 1797, and must have added considerably to the expenses of that department. These expenses have been already calculated to have risen since 1796, from 84,500*l.* to 150,000*l.* or 65,500*l.**

The public deposits, too, are at least double what they were in 1797, from all which I have a right to infer, that the expenses of the Bank in 1797, could not have exceeded 150,000*l.*, and that they have been gradually increasing since that period; perhaps at the rate of 7000*l.* or 8000*l.* per annum.

The next subject for consideration, is the amount of cash and bullion in the Bank, which at no time has been laid before the public;—that, and the amount of their discounts, were the only material facts which the Bank concealed from the public in the eventful year 1797. They stated in the account laid before Parliament, that their cash and bullion, and their bills and notes discounted, amounted together to 4,176,080*l.* on the 26th of *February* 1797. They gave also a scale of discounts from 1782 to 1797, and a scale of the cash and bullion in the Bank for the same period. By comparing these tables with each other, and with some parts of the evidence delivered before the Parliamentary Committees, an ingenious calculator discovered the whole secret which the Bank wished to conceal. According to his table the cash and bullion in the Bank, on the 26th of *February* 1797, was reduced as low as 1,227,000*l.*, and 4 millions was about the sum which the Bank considered as fair cash; to which it never attained after *December* 1795, though previously to that year it was on some occasions more than double that amount.

For the first year or two after the suspension of cash payments, the Bank must have made great efforts to replenish their coffers with cash and bullion, as they were then by no means sure that they should not be again required to pay their notes in specie. We find, accordingly, by accounts returned to Parliament by the Mint, that the amount of gold coined in 1797 and 1798, was very little less in value than 5,000,000*l.*†

* The Committee on public expenditure calculated these expenses at 119,500*l.* in 1807, and stated the increase from 1796 to 1807 at about 35,000*l.*

† The Committee of Secrecy reported to Parliament, that the cash and bullion in

Whatever might have been the amount of cash and bullion, which the Bank had acquired in the first two years after the suspension of cash payments, it is probable that their stock has been decreasing since that period, as they could have no motive for keeping a large amount of such unproductive capital, when they must have been quite secure that no call could be made on them by the holders of their notes for guineas, and that before they were again required to pay in specie, they would have ample notice to prepare a due store of the precious metals.—It does not appear possible, then, under all the circumstances of the case, that the Bank can have added to their stock of bullion, since the great coinages of 1797 and 1798; but it is highly probable that they have considerably reduced it.

In estimating the profits of the Bank, as far as those profits are influenced by their stock of cash and bullion, I shall be justified in considering them greater since 1797 and 1798, as since those years they would naturally keep a less part of their capital in that unproductive shape, and, consequently, more in exchequer bills, or in merchants' acceptances, securities which pay interest, and are productive of profit.—On an average of the whole eighteen years, from 1797 to 1815, the cash and bullion of the Bank cannot be estimated as amounting to more than 3 millions, though, probably, for the first year or two, it amounted to 4 or 5 millions.

These circumstances being premised, it will not be difficult to calculate the profits of the Bank, from 1797 to the present time, all the facts necessary to such calculation being known to us excepting the two I have just stated, viz. the amount of expenses and of cash and bullion, but which cannot differ much from that at which I have calculated them.

Proceeding, then, on this basis, it appears, as will be seen by the accounts in the Appendix, that the profits and surplus capital of the Bank for a series of years, after paying all dividends and bonuses, have been as follows:—[*For Table see next page.*]

If in the accounts referred to, it should be thought that I have estimated the expenses of the Bank too low, it may on the other hand be remarked that I have not allowed for any profit from the deposits of individuals. Those deposits may not be very large, as the Bank do not afford the same accommodation to individuals as given by other bankers. Some profit must, however, be made from this source, as well as from the loss and destruction of notes, which it may be presumed, after a time, are not included in the amount stated to be in circulation. By the purchase of silver, and coinage

the Bank, in *November* 1797, had increased to an amount more than five times the value of that at which they stood on the 25th of *February* 1797. They stated, too, that the bankers and traders of London, who had a right, by the Act of Parliament, to demand three-fourths of any deposit in cash, which they had made in the Bank, of 500*l.* and upwards, after the 25th of *February* 1797, had only claimed in *November* 1797, about one-sixteenth.

| Year commencing in January. | Surplus capital. | Profits after paying dividend and bonuses. | Dividend and bonus together. |
|---|---|---|---|
| 1797, | £3,826,890 | £89,872 | 7 per cent. |
| 1798, | 3,916,762 | 533,621 | 7 ... |
| 1799, | 4,450,383 | * | 17 ... |
| 1800, | 3,941,228 | 611,981 | 7 ... |
| 1801, | 4,553,209 | 116,038 | 12 ... |
| 1802, | 4,669,247 | 460,509 | 9½ ... |
| 1803, | 5,129,756 | 765,859 | 7 ... |
| 1804, | 5,895,615 | 306,794 | 12 ... |
| 1805, | 6,202,409 | 346,335 | 12 ... |
| 1806, | 6,548,744 | 368,008 | 12 ... |
| 1807, | 6,916,752 | 581,274 | 10 ... |
| 1808, | 7,498,026 | 385,865 | 10 ... |
| 1809, | 7,883,891 | 470,760 | 10 ... |
| 1810, | 8,354,651 | 651,483 | 10 ... |
| 1811, | 9,006,134 | 722,188 | 10 ... |
| 1812, | 9,728,322 | 739,867 | 10 ... |
| 1813, | 10,468,189 | 809,786 | 10 ... |
| 1814, | 11,279,975 | 1,081,649 | 10 ... |
| 1815, | 12,359,624 | 1,066,625 | |
| 1816, | 13,426,249 | | |

of tokens, the Bank must, on the whole, have been gainers; for the value of the token has been generally lower in the market, than it has passed for in circulation at the time of its issue.

In point of fact, too, the Bank receives more than five per cent. interest for their money; for exchequer bills paying 3½d. per day, pay 5*l.* 6s. 5½d. per cent. per annum; and in discounting bills, the interest being immediately deducted, is employed as capital, and is instantly productive of profit; at the same time it must be observed that during a part of the time for which these calculations are made, exchequer bills bore an interest of only 3¼d. per day, which amounts to 4*l.* 18s. 0¼d. per cent. per annum, rather less than five per cent.

In *March* 1801, when a bonus of 5 per cent., in navy 5 per cents., was divided amongst the proprietors of Bank stock, Mr Tierney said in the House of Commons, "that when the affairs of the Bank of England were investigated by the House of Commons in 1797, the surplus profits were considered by some as a security for the engagements of the Bank to the public." To which Mr Samuel Thornton, then governor of the Bank, replied, that "he could assure the honourable member, that the security of the public would not be lessened from what it was in 1797, by the division of the sum of 582,120*l.* voted at the general court, on the

* There was this year a loss of 509,155*l.*

19th instant, as exclusive of that sum, the surplus profits of the Bank were more now than they were in 1797." *

On an inspection of the account in the Appendix, it will be seen, that, after paying all the dividends and bonuses to the proprietors, the Bank had accumulated in *April* 1801 savings to the amount of 3,945,109*l.*, exceeding the savings of 1797 by 118,219*l.*, an increase not inconsistent with the declaration of Mr Thornton, and therefore tending to confirm the correctness of the basis on which these calculations are made.†

It will appear on an examination of the accounts in the Appendix for the subsequent years, that the profits of the Bank for every year since 1801 have exceeded the annual dividend paid to the proprietors, and that in 1815, the surplus for that year only must have amounted to 1,066,625*l*, so that the Bank could have paid a dividend for that year of 19 per cent. instead of 10 per cent.

It will appear, too, that if the Bank affairs have been only moderately well managed, they must now have an accumulated fund of no less than 13 millions, which, in defiance of the clearest language of an act of Parliament, the Directors have hitherto withheld from the proprietors.

With such an accumulated fund, the Bank could make a division of 100 per cent. bonus without infringing on their permanent capital; and if they could maintain their present profits, with a deduction only of 523,908*l.* per annum, the interest (less income tax) on the surplus capital proposed to be divided, they would still have an unappropriated income of 542,000*l.*, which would enable them to increase their permanent dividend from 10 to 14½ per cent in addition to the bonus of 100 per cent.

If they divided only a bonus of 75 per cent., they would retain a surplus capital exceeding that of 1797, and might, on the above supposition, have an unappropriated income of 673,000*l.*,—they might therefore raise their permanent dividend from 10 to 15½ per cent. in addition to the bonus of 75 per cent.

But it cannot be expected that the Bank will, during peace, have

* Allardyce's Address to the proprietors of the Bank of England, Appendix, No. 11.

† The accounts in the Appendix are made up from *January* to *January*. The bonus in question was paid in *April* 1801. The net profits of the Bank for the whole year 1801 were 1,526,019*l.*, consequently for the quarter ending in April they may be stated

| | | |
|---|---|---|
| at | | £381,504 |
| Which, added to the surplus capital of *January* 1801. | | 4,553,209 |
| Gives the total of the surplus capital in *April* 1801, before paying the dividend and bonus, | | £4,934,713 |
| Deduct— | | |
| Dividend 3½ per cent. for half a year, | £407,484 | |
| Bonus 5 per cent., | 582,120 | |
| | | 989,604 |
| Leaving a surplus capital in *April* 1801 of | | £3,945,109 |
| And exceeding that in 1797 of | | 3,826,890 |
| By | | £118,219 |

the same opportunities of making profit as during war, and the proprietors must prepare themselves for a considerable reduction in their annual income. What that reduction may be will depend on the new agreement now to be entered into with Government, on the future amount of public deposits, and on the conditions on which the restoration of metallic payments may be enforced. It is evident that if the plan which I have recommended in the fourth section of this work be adopted, the Bank profits from this last item will not be materially reduced.

Supposing, however, that the reduction of the annual income of the Bank should, from the falling off of their profits in all these departments, be as much as 500,000*l.*, the profits of the Bank would nevertheless be equal to the payment of the present permanent dividend of 10 per cent., even after a division of 100 per cent. bonus to the proprietors of Bank stock; for, if my calculations be correct, the profits of the Bank, after the payment of the annual dividend of 10 per cent. to the proprietors, were, for the year ending January 1, 1816, . . . . . £1,066,625

| | | |
|---|---|---|
| Deduct then the interest now made on 11,642,400*l.* proposed to be divided, less property tax, . . . . | £523,908 | |
| Loss by a peace arrangement, . . | 500,000 | |
| | | 1,023,908 |
| Leaving a surplus of, per annum, . . . . . | | £42,717 |

If, instead of 100 per cent., 50 per cent. bonus only were paid to the proprietors, the annual surplus profit of the Bank, after paying 10 per cent. dividend, would be 304,671*l.*, a sum equal to a permanent increase of dividend of $2\frac{1}{2}$ per cent.

And if no bonus whatever were paid, but the savings were considered as part of the Bank capital, the annual surplus profit of the Bank, after paying 10 per cent. dividend, would be 566,625*l.*, very nearly equal to a permanent increase of dividend of 5 per cent.

These estimates are made on a supposition, too, that the property tax should permanently continue, which is calculated to be an annual charge of more than 200,000*l.*, to the Bank, and consequently more than equal to a dividend of $1\frac{3}{4}$ per cent.

But the Directors are bound, in my opinion, under every case, to divide the surplus profits amongst the proprietors, the law imperatively enjoining such a division, and policy being no wise opposed to it.

Well was it urged by the Hon. Mr Bouverie, who moved in the last Bank court that an account of the surplus capital of the Bank be laid before the proprietors, that this law respecting the division of profits was probably enacted by the legislature, on a consideration of the powers of accumulation at compound interest, and the dangers which might arise to the constitution or the country, from any corporation becoming possessed of millions of treasure. If the profits of the Bank were to continue at the present rate, and no

addition were to be made to the dividend now paid of 10 per cent., the accumulation of the surplus profits in forty years would give to the Bank a disposable fund of more than 120 millions. Wisely, then, did the legislature enact, that "All the profits, benefits, and advantage from time to time arising out of the management of the said corporation, shall (the charges of managing the business of the said governor and company *only excepted)* be applied from time to time to the uses of all the members of the said corporation for the time being, rateably and in proportion to each member's part, share, and interest, in the common capital, and principal stock, of the said governor and company of the Bank of England."

Those who vindicated the Directors at the last general court for their departure from the line of conduct prescribed by the law, recommended the increase of the capital of the Bank,—and they thought that the accumulated savings might be advantageously employed for such purpose.

It is said that the Bank Directors are favourable to such a plan.

If the measure should be a good one, the sum of capital to be added should be at once defined,—the proprietors should have accounts laid before them of the amount of their accumulated fund, and should be consulted on the expediency of such a disposition of it,—and lastly, the sanction of Parliament should be obtained.

The Bank, however, have waited for none of these conditions,—they have been, in fact, for years adding the annual surplus profits to their capital, without defining the amount added, or to be added; they do it without laying any accounts before the proprietors—without consulting them; and not only without the sanction of Parliament, but in defiance of an express law on the subject.

But if the Bank complied with all these conditions, would the measure itself be expedient, and are the reasons given in support of it, namely the enlarged business of the Bank, and that it would tend to the security both of the Bank and the public, of sufficient weight to justify its adoption?

The business and income of the Bank depend, as before stated, on the amount of the aggregate fund which they have to employ, and this fund is derived from the three following sources: The amount of bank notes in circulation, deducting only the cash and bullion: The amount of public and private deposits: And the amount of that part of the capital of the Bank which is not lent to Government. But it is only the two former of these funds which contribute to the real profit of the Bank; for the interest received for surplus capital, being only 5 per cent., might be made with as much facility by each individual proprietor, on his share of such capital, if under his own management, as by combining the whole into one fund. If the proprietors were to add from their own individual property 10 millions to the capital of the Bank, the income of the Bank would indeed be increased 500,000*l.* or 5 per cent. on 10 millions; but the proprietors would not be gainers by such an

arrangement. If, however, 10 millions were added to the amount of notes, and could be permanently maintained in circulation,—or if the public and private deposits were to be increased 10 millions, the *income* of the Bank would not only be increased 500,000*l.* but their *real profits* also. and this advantage would arise wholly from their acting as a joint company, and could not be otherwise obtained.

There is this material difference between a bank and all other trades: A bank would never be established, if it obtained no other profits but those from the employment of its own capital; its real advantage commences only when it employs the capital of others. Other trades, on the contrary, often make enormous profits by the employment of their own capital only.

But if this argument be correct, with respect to an additional capital to be actually raised from amongst the proprietors, it is equally so to one withheld from them.

To increase the *profits* of the Bank proprietors, then, an increase of capital would be neither necessary nor desirable.

Neither would such an addition contribute towards the *security* of the Bank; for the Bank can never be called upon for more than the payment of their notes, and the public and private deposits; these constituting, at all times, the whole of their debts. After paying away their cash and bullion, their remaining securities, consisting of merchants' acceptances and Exchequer bills, must be at least equal to the value of their debts; and in no case can these securities be deficient, even without *any* surplus capital, excepting the Bank should lose all that which constitutes their growing dividend; and even then they could not be distressed, unless we suppose that at the same time payment were demanded for every note in circulation, and for the whole of their deposits, both public and private.

Is it against such a contingency that the proprietors are called upon to provide; when even under these, almost impossible circumstances, the Bank would have an untouched fund of 11,686,000*l.* which Government owe them?

Would the security of the public be increased? In one respect it would. If the Bank have no other capital but that which they lend to Government, they must lose all that capital by their trade, or more than 11½ millions, before the public can be sufferers; but if the capital of the Bank were doubled, the Bank might lose 23 millions, before any creditor of theirs could suffer loss. Are the friends to an increase of the capital of the Bank prepared to say, that it is against the consequences of the loss of the whole Bank capital that they are desirous of protecting the public?

It remains to be considered, whether the ability of the Bank to pay their notes in specie would be increased by an increase of their capital. The ability of the Bank, to pay their notes in specie, must depend upon the proportion of specie which they may keep, to meet

the probable demand for payment of their notes; and in this respect their power cannot be increased, for they may now, *if they please*, have a stock of specie, not only equal to all their notes in circulation, but to the whole of the public and private deposits, and under no possible circumstances can more be demanded of them. But the profits of the Bank essentially depend on the smallness of the stock of cash and bullion; and the whole dexterity of the business consists in maintaining the largest possible circulation, with the least possible amount of their funds in the unprofitable shape of cash and bullion. The amount of notes in circulation depends in no degree on the amount of capital possessed by the issuers of notes, but on the amount required for the circulation of the country; which is regulated, as I have before attempted to show, by the value of the standard, the amount of payments, and the economy practised in effecting them.

The only effect, then, of the increase of the capital of the Bank would be to enable them to lend to Government or to merchants those funds, which would otherwise have been lent by individuals of the community. The Bank would have more business to do—they would accumulate more merchants' acceptances and exchequer bills: they would even increase the income of the Bank; but the profits of the proprietors would be neither more nor less, if the market rate of interest for money were at 5 per cent., and the business of the Bank were carried on with the same economy. The proprietors would be positive losers, if they could individually have employed their shares of this capital in trade, or otherwise, at a greater profit.

But not only do the Bank refuse, in direct contradiction to an act of Parliament, to make a division of their accumulated profits, but they are equally determined not to communicate to the proprietors what those profits are, notwithstanding their bye-law enjoins, "that twice in every year a general court shall be called, and held for considering *the general state and condition of this corporation*, and for the making of dividends, *out of all and singular* the produce and profit of the capital stock and fund of this corporation and the trade thereof, amongst the several owners and proprietors therein, according to their several shares and proportions."

If the law had been silent on the subject, the Bank Directors would, I think, be bound to show some specific evil which would result from publicity, before they refused to show a statement of their affairs to the proprietors.

It is in fact the only security which the proprietors have, against the abuse of the trust reposed in the Directors.

The affairs of the Bank may not always be managed by such men as are now in the direction, against whom not a shadow of suspicion any where exists.

Without accounts; without a division of profits; and without

any other proof of the accumulated fund of the Bank, but the notoriety of the increase of the sources from which the Bank profits are made—and that for a period of more than ten years; what security have the proprietors against a corrupt administration of their affairs. It is not consistent with the delicacy of the situation of those who are entrusted with the management of millions to demand such unbounded confidence—so much reliance on their own personal character, without stating some grounds for such a demand. Yet the only answer which the Directors made to a motion for a statement of profits, in the last general court, was, that they should consider the passing of such a resolution as betraying a want of confidence in them, and as a censure on their proceedings.

On all sides, such an intention was disclaimed; yet, strange to say, no other reply could be obtained from the Directors.

The publication of accounts, besides being necessary as a check against the *corrupt* administration of the Directors, is also necessary to give assurance to the proprietors, that their affairs are *ably* administered. Since 1797, no statement has been made of the condition of the Bank; and, even in that year, it was made to Parliament, on a particular exigence, and not to the proprietors of bank stock. How, then, can the proprietors know whether, in the favourable circumstances in which the Bank have been placed, the Directors have availed themselves of all the opportunities which have offered, of employing the funds entrusted to their charge to the best advantage? Would it not be desirable, that from time to time the proprietors should be able to ascertain whether their just expectations had been realised, and whether their affairs had been ably as well as honourably administered? If the practice of laying all accounts before the proprietors had been always followed, perhaps the Directors of 1793, 1794, and 1795, might have been admonished for so badly managing the affairs of the Bank, as to keep permanently in their coffers a sum of cash and bullion, generally more than three-fourths, and seldom less than one-half the whole amount of their notes in circulation. They might possibly have been told, that such a waste of the resources of the Bank showed a very limited knowledge of the principles by which a paper currency should be regulated.*

These irregularities in the proceedings of the Bank excited the attention of an independent proprietor, Mr Allardyce, in 1797 and 1801. In his excellent publication on Bank affairs, he has pointed out with great force and ability the illegal conduct of the Bank. His opinion was confirmed by Mr, now Sir James Mansfield, who was consulted by him, as to the course necessary to be pursued, to compel the Directors to lay an account before the proprietors of the

* For the account of cash and bullion in the Bank in the above years I trust to the calculations to which I have already alluded, page 425. I can see no reason to doubt their general accuracy.

state of the Company. Sir James Mansfield's opinion was given as follows:—

"I am of opinion, that *every* proprietor, at a general half yearly court, has a *right* to require from the Directors, and it is the *duty* of the latter to produce all such accounts, books and papers, as are necessary to enable the proprietors to judge of the state and condition of the corporation and its funds, and to determine what dividend ought to be paid. The proper method to be pursued by those who consult me in order to obtain such a production is, that a number of respectable proprietors should immediately give notice to the Governor and other Directors, that they shall require at the next general court a production of all the necessary books, accounts and papers; and at the general court, when it shall be held, to attend and require such a production. If it shall not be obtained, I then advise them immediately, or within a few days after the holding of the general court, to make an application to the Governor to call a general court, which application must be made by nine members at least, having each 500*l.* stock. If the Governor shall refuse to call such general court, then the nine members who shall have applied to him to have a court called, may themselves call one in the manner prescribed by the charter; and whether the Governor calls such court, or it is called by the nine members, I advise them, as soon as it is called, to apply to the Court of King's Bench for a mandamus to the Governor and Directors, to produce at such court all the necessary books, accounts and papers.

"J. Mansfield."

"Temple, March 9, 1801."

In consequence of this opinion, Mr Allardyce delivered a demand in writing at the next general court, held the 19th March 1801, that the accounts should be produced, and no doubt intended to follow up this proceeding in the way recommended by Sir James Mansfield,—but he soon after died; and since that time no proprietor has made any demand for accounts, till at the last general court in December. It is remarkable that, very unexpectedly to the proprietors, a bonus of 5 per cent., in navy 5 per cents., was voted in the general court of the 19th March 1801, the day on which Mr Allardyce's demand was made and refused. The first motion for accounts made by Mr Allardyce was in the general court, held 14th December 1797; and in March 1799, there was a bonus of 10 per cent. in 5 per cents. 1797. Mr Allardyce did not, I believe, make any motion in the Bank court between December 1797 and March 1801.

Since 1797, then, the proprietors have remained in utter ignorance of the affairs of the Bank. During eighteen years the Directors have been silently enjoying their lucrative trade, and may now possibly think that the same course is best adapted to the interests of the Bank, particularly as negociations are about

to take place with Government, when it might be as well that the amount of their accumulated fund should not be known. But the public attention has been lately called to the affairs of the Bank; and the subject of their profits is generally canvassed and understood. Publicity would now probably be more beneficial than hurtful to the Bank; for exaggerated accounts of their profits have been published which may raise extravagant expectations, and which may be best corrected by official statements. Besides which, the Bank are secure of their charter for seventeen years to come; and the public cannot, during that time, deprive them of the most profitable part of their trade. If, indeed, the charter were about to expire, the public might question the policy of permitting a company of merchants to enjoy all the advantages which attend the supplying of a great country with paper money; and although they would naturally look with jealousy, after the experience furnished by other states, to allowing that power to be in the hands of Government, they might probably think that in a free country means might be found by which so considerable an advantage might be obtained for the State, independently of all control of ministers. Paper money may be considered as affording a seignorage equal to its whole exchangeable value,—but seignorage in all countries belongs to the State, and with the security of convertibility as proposed in the former part of this work, and the appointment of commissioners responsible to Parliament only, the State, by becoming the sole issuer of paper money, in town as well as in the country, might secure a net revenue to the public of no less than 2 millions sterling. Against this danger, however, the Bank is secure till 1833, and therefore on every ground publicity is expedient.

# APPENDIX.

## No. I.*

Table showing the Amount annually paid by the Public, from 1797 to 1815, for Management of the British, Irish, German, and Portuguese Debt.

| Year commencing 5th January. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1797 | . | . | . | . | . | L. | 162,431 | 5 | 3 |
| 1798 | . | . | . | . | . | | 212,592 | 1 | 5 |
| 1799 | . | . | . | . | . | | 218,190 | 17 | 0 |
| 1800 | . | . | . | . | . | | 238,294 | 3 | 8 |
| 1801 | . | . | . | . | . | | 236,772 | 15 | 8 |
| 1802 | . | . | . | . | . | | 263,105 | 14 | 6 |
| 1803 | . | . | . | . | . | | 247,538 | 11 | 0 |
| 1804 | . | . | . | . | . | | 267,786 | 19 | 7 |
| 1805 | . | . | . | . | . | | 271,911 | 11 | 9 |
| 1806 | . | . | . | . | . | | 292,127 | 9 | 10 |
| 1807 | . | . | . | . | . | | 297,757 | 16 | 1 |
| 1808 | . | . | . | . | . | | 210,549 | 2 | 7 |
| 1809 | . | . | . | . | . | | 222,775 | 2 | 4 |
| 1810 | . | . | . | . | . | | 217,825 | 13 | 5 |
| 1811 | . | . | . | . | . | | 228,349 | 16 | 0 |
| 1812 | . | . | . | . | . | | 223,705 | 12 | 5 |
| 1813 | . | . | . | . | . | | 238,827 | 17 | 7 |
| 1814 | . | . | . | . | . | | 242,263 | 14 | 7 |

## No. II.

Table showing the Amount annually received by the Bank from 1797 to 1815, for receiving Contributions on Loans.†

| Year commencing Michaelmas. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1796 | . | . | . | . | . | L. | 20,506 | 3 | 4 |
| 1797 | . | . | . | . | . | | 27,410 | 0 | 4 |

* The particulars in the above table are taken from the annual finance book, printed by order of the House of Commons. They include not only what is paid to the Bank, but to the Exchequer and South Sea Company. The annual charge of the South Sea Company is now about 14,560*l.* In 1797 it was 14,657*l.* The Exchequer charge was as high as 6760*l.* 6s. 8d., in 1807 it fell gradually to 2485*l.* and has now, I believe, ceased.

The Bank have also been paid for management of life annuities since 1810,—and since 1812, about 1200*l.* or 1300*l.* per annum for management of a loan of 2½ millions, raised for the East India Company, which are not included in this table.

† This table is taken from an account laid before Parliament, on the 19th of June 1815.

| Year commencing 5th January. | | | |
|---|---|---|---|
| 1799 | L.16,115 | 6 | 8 |
| 1800 | 12,489 | 15 | 5 |
| 1801 | 39,080 | 17 | 11 |
| 1802 | 22,538 | 12 | 3 |
| 1803 | 9,669 | 10 | 0 |
| 1804 | | | |
| 1805 | 11,683 | 19 | 7 |
| 1806 | 18,130 | 16 | 3 |
| 1807 | 16,115 | 16 | 8 |
| 1808 | 12,650 | 18 | 7 |
| 1809 | 8,400 | 0 | 0 |
| 1810 | 11,680 | 0 | 0 |
| 1811 | 14,705 | 0 | 0 |
| 1812 | 19,031 | 14 | 0 |
| 1813 | 21,639 | 8 | 9 |
| 1814 | 42,200 | 0 | 0 |

## No. III.

The total Amount of the Unredeemed Funded Debt of Great Britain and Ireland, including Loans to the Emperor of Germany and Prince Regent of Portugal, payable in Great Britain, was on the 1st of February 1815, according to accounts laid before Parliament, . . . . L.727,767,421 2 $5\frac{3}{4}$

Do. for East India Company, . . . . 3,929,561 0 0

L.731,696,982 2 $5\frac{3}{4}$

Debt contracted from Feb. 1 to Aug. 1, 1815, L.87,448,402 16 0

Redeemed from Feb. 1 to Aug. 1 1815, . 11,099,166 0 0

76,349,236 16 0

Total of unredeemed funded debt on Aug. 1, 1815, . L.808,046,218 18 $5\frac{3}{4}$

The charge for management on which is as follows:—

| | | | | | | |
|---|---|---|---|---|---|---|
| L.15,233,484 | 13 | 11 | South Sea Stock and annuities, for the management of which South Sea Co. is paid . . | L.14,560 | 4 | 11 |
| 11,686,000 | 0 | 0 | due to the Bank of England, . . | 5,898 | 3 | 5 |
| 600,000,000 | 0 | 0 | at 340*l.* per million, . . . | 204,000 | 0 | 0 |
| 181,126,734 | 4 | $6\frac{3}{4}$ | at 300*l.* do. . . . . | 54,338 | 0 | 5 |
| L.808,046,218 | 18 | $5\frac{3}{4}$ | | | | |
| 2,795,340 | 0 | 0 | life annuities, . . . . . | 899 | 5 | 0 |
| 39,735,898 | 6 | 8 | for 1,589,435*l.* 6s. 8d. anns. at 25 years' purchase, | 11,920 | 15 | 4 |
| L.850,577,457 | 5 | $1\frac{3}{4}$ | | | | |

L.291,616 9 7

Deduct the first sum paid to the South Sea Company, . 14,560 4 11

Management paid to the Bank of England on the debt as it stood Aug. 1, 1815, . . . . L.277,056 4 8

## No. IV.

Average Amount of Bank of England Notes, including Bank Post Bills, in circulation in each of the following years.

| Years. | Notes of five pounds and upwards, including Bank post bills. | Notes under five pounds. | Total. |
|---|---|---|---|
| 1797 | 10,095,620 | 1,096,100 | 11,191,720 |
| 1798 | 11,527,250 | 1,807,502 | 13,334,752 |
| 1799 | 12,408,522 | 1,653,805 | 14,062,327 |
| 1800 | 13,598,666 | 2,243,266 | 15,841,932 |
| 1801 | 13,454,367 | 2,715,182 | 16,169,594 |
| 1802 | 13,917,977 | 3,136,477 | 17,054,454 |
| 1803 | 12,983,477 | 3,864,045 | 16,847,522 |
| 1804 | 12,621,348 | 4,723,672 | 17.345,020 |
| 1805 | 12,697,352 | 4,544,580 | 17,241,932 |
| 1806 | 12,844,170 | 4,291,230 | 17,135,400 |
| 1807 | 13,221,988 | 4,183,013 | 17.405,001 |
| 1808 | 13,402,160 | 4,132,420 | 17.534,580 |
| 1809 | 14,133,615 | 4,868,275 | 19.001,890 |
| 1810 | 16,085,522 | 6,644,763 | 22,730,285* |
| 1811 | 16,286,950 | 7,260,575 | 23,547,525 |
| 1812 | 15,862,120 | 7,600,000 | 23,462,120 |
| 1813 | 16,057,000 | 8,030,000 | 24,087,000 |
| 1814 | 18,540,780 | 9,300,000 | 27,840,780 |
| 1815 | 18,157,956 | 9,161,454 | 27,319,410 |

## No. V.

AN ESTIMATE OF THE PROFITS OF THE BANK OF ENGLAND FOR THE YEAR COMMENCING JANUARY 5 1797.

| | | |
|---|---|---|
| Bank notes in circulation, . . | L.11,191,720 | |
| Public deposits, . . . | 5,000,000 | |
| Surplus above permanent capital,† . | 3,826,890 | |
| | 20,018,610 | |
| Deduct cash and bullion, . . | 5,000,000 | |
| Funds yielding interest, . . | L.15,018,610 at 5 per cent. | L.750,930 |
| Charge for management of national debt, . . . . . | | 143,800 |
| Do. do. loan, . . . . . | | 20,506 |
| Do. do. lottery, . . . . . | | 1,000 |
| Interest on 11,686,000*l.* lent to Government at 3 per cent. . . | | 350,604 |
| Carry forward, | | L.1,266,840 |

* Till 1811, the above are extracted from the report of the bullion committee; since that year from returns made to Parliament.

† This sum was returned by the Bank to Parliament as their surplus capital, February 26, 1797

| | | |
|---|---|---|
| | Brought over, | L.1,266,840 |
| Deduct— | | |
| Expenses, | L.150,000 | |
| Stamps, | 12,000 | |
| Voluntary contribution, | 200,000 | |
| | | 362,000 |
| | | 904,840 |
| Dividend 7 per cent. on 11,642,400*l.*, | | 814,968 |
| Profit, | | L.89,872 |

ESTIMATE FOR THE YEAR COMMENCING JANUARY 1798.

| | | | |
|---|---|---|---|
| Surplus before 1797 | L.3,826,890 | | |
| Do. of 1797, | 89,872 | | |
| | L.3,916,762 | | |
| Bank notes in circulation, | 13,334,752 | | |
| Public deposits, | 5,700,000 | | |
| | L.22,951,514 | | |
| Deduct cash and bullion, | 4,000,000 | | |
| Funds yielding interest, | L.18,951,514 | at 5 per cent., | L.947,575 |
| Charge for management of national debt, | | L.192,000 | |
| Do. do. loans, | | 27,410 | |
| Do. do. lottery, | | 1,000 | |
| | | | 220,410 |
| Interest on 11,686,800*l.* capital at 3 per cent., | | | 350,604 |
| | | | L.1,518,589 |
| Deduct— | | | |
| Expenses, | | L.158,000 | |
| Stamps, | | 12,000 | |
| Seven per cent. dividend, | | 814,968 | |
| | | | 984,968 |
| Profit, | | | L.533,621 |

YEAR COMMENCING JANUARY 5, 1799.

| | | | |
|---|---|---|---|
| Former savings, | L.3,916,762 | | |
| Do. for 1798, | 533,621 | | |
| | L.4,450,383 | | |
| Bank notes, | 14,062,300 | | |
| Public deposits, | 6,400,000 | | |
| | L.24,912,683 | | |
| Deduct cash and bullion, | 3,000,000 | | |
| Funds yielding interest, | L.21,912,683 | 5 per cent., | L.1,095,634 |
| Charge for management of national debt, | | L.196,700 | |
| Do. do. loans, | | 16,115 | |
| Do. do. lotteries, | | 1060 | |
| | | | 213,815 |
| Interest on 11,686,800*l.*, | | | 350,604 |
| Carry forward, | | | L.1,660,053 |

| | | | |
|---|---|---|---|
| | | Brought over, | L.1,660,053 |
| Deduct— | | | |
| Expenses, | L. 166,000 | | |
| Stamps,* | 24,000 | | |
| Dividend 7 per cent., | 814,968 | | |
| Bonus 10 per cent., | 1,164,240 | | |
| | | | 2,169,208 |
| | Loss, | | L.509,155 |

YEAR COMMENCING JANUARY 5, 1800.

| | | | | |
|---|---|---|---|---|
| Former savings, | L.4,450,383 | | | |
| Loss of 1799, | 509,155 | | | |
| | L.3,941,228 | | | |
| Bank notes, | 15,841,900 | | | |
| Deposits, | 7,100,000 | | | |
| | L.26,883,128 | | | |
| Deduct cash and bullion, | L.3,000,000 | | | |
| Loan to Government, | 3,000,000† | | | |
| | 6,000,000 | | | |
| Funds yielding interest, | L.20,883,128 | at 5 per cent., | | 1,044,156 |
| Management of national debt, | | L.216,700 | | |
| Do. loans, | | 12,489 | | |
| Do. lottery, | | 1,000 | | |
| | | | | 230,189 |
| Interest on 11,686,800*l.*, | | | | 350,604 |
| | | | | L.1,624,949 |
| Deduct— | | | | |
| Expenses, | | L.174,000 | | |
| Stamps, | | 24,000 | | |
| Dividend 7 per cent., | | 814,968 | | |
| | | | | 1,013,968 |
| | Profit, | | | L.611,981 |

YEAR COMMENCING JANUARY 5, 1801.

| | | | | |
|---|---|---|---|---|
| Former savings, | L.3,941,228 | | | |
| Surplus, 1800, | 611,981 | | | |
| | L.4,553,209 | | | |
| Bank notes, | 16,169,500 | | | |
| Deposits, | 7,800,000 | | | |
| | L.28,522,709 | | | |
| Loan to Government, | L.3,000,000 | | | |
| Cash and bullion, | 3,000,000 | | | |
| | 6,000,000 | | | |
| Funds yielding interest, | L.22,522,709 | at 5 per cent., | | L.1,126,135 |
| | | Carry forward, | | L.1,126,135 |

* The composition for stamps was raised this year to 24,000*l.*; in 1803-4, to 32,000*l.*; in 1806-7, to 42,000*l.*; and in 1815-16, to 87,500*l.*

† The Bank lent to Government this year 3 millions, without interest, for six years, and afterwards continued the same loan for eight years at 3 per cent. interest.

| | | |
|---|---|---|
| | Brought over, | L.1,126,135 |
| Charge for management of national debt, | L.215,200 | |
| Do. do. loans, | 39,080 | |
| Do. do. lottery, | 1,000 | |
| | | 255,280 |
| Interest on capital, | | 350,604 |
| | | L.1,732,019 |
| Deduct— | | |
| Expenses, | L.182,000 | |
| Stamps, | 24,000 | |
| | | 206,000 |
| | | L.1,526,019 |
| Dividend 7 per cent., | L.814,968 | |
| Bonus 5 per cent., | 582,120 | |
| | | 1,397,088 |
| | | L.128,931 |
| Property-tax,* | | 12,893 |
| Profit, | | L.116,038 |

YEAR COMMENCING JANUARY 1802.

| | | | |
|---|---|---|---|
| Former savings, | | L.4,553,209 | |
| Profits, 1801, | | 116,038 | |
| | | L.4,669,247 | |
| Bank notes, | | 17,050,000 | |
| Deposits, | | 8,600,000 | |
| | | L.30,319,247 | |
| Deduct— | | | |
| Loan to Government, | L.3,000,000 | | |
| Cash and bullion, | 3,000 000 | | |
| | | 6,000,000 | |
| Funds yielding interest, | | L.24,319,247 | at 5 per cent., 1,215,962 |
| Charge for management of national debt, | | L.241,600 | |
| Do. do. loans, | | 22,538 | |
| Do. do. lottery, | | 1,000 | |
| | | | 265,138 |
| Interest on capital, | | | 350,604 |
| | | | L.1,831,704 |
| Deduct— | | | |
| Expenses, | | L.190,000 | |
| Stamps, | | 24,000 | |
| Dividend 7 per cent., | | 814,968 | |
| Bonus 2½ per cent., | | 291,060 | |
| | | | 1,320,028 |
| | | | L.511,676 |
| Property tax, | | | 51,167 |
| Profit, | | | L.460,509 |

* The property-tax was paid by the proprietors till 1806, when the Bank agreed to pay, on their whole profits to Government, and not to make any deduction from the dividend warrant.

## YEAR COMMENCING JANUARY 1803.

| | | | | |
|---|---|---|---|---|
| Former savings, | | | L.4,663,247 | |
| Profits, 1802, | | | 465,509 | |
| | | | L.5,129,756 | |
| Bank notes, | | | 16,847,500 | |
| Deposits, | | | 9,800,000 | |
| | | | L.31,277,256 | |
| Loan to Government, | L.3,000,000 | | | |
| Cash and bullion, | 3,000,000 | | | |
| | | 6,000,000 | | |
| | | L.25,277,256 | | L.1,263,862 |
| Management of the national debt, | | | L.226,000 | |
| Do. loans, | | | 9,669 | |
| Do. lottery, | | | 1,000 | |
| | | | | 236,669 |
| Interest on capital, | | | | 350,604 |
| | | | | L.1,851,135 |
| Deduct— | | | | |
| Expenses, | | | L.198,000 | |
| Stamps, | | | 32,000 | |
| Dividend 7 per cent., | | | 814,968 | |
| | | | | 1,044,968 |
| | | | | L.806,167 |
| Property-tax on net profit, 5 per cent., | | | | 40,308 |
| | | Profit, | | L.765,859 |

## YEAR COMMENCING JANUARY 1804.

| | | | | |
|---|---|---|---|---|
| Former savings, | | | L.5,129,756 | |
| Profits, 1803, | | | 765,859 | |
| | | | L.5,895,615 | |
| Bank notes, | | | 17,345,020 | |
| Deposits, | | | 10,000,000 | |
| | | | L.33,240,635 | |
| Deduct— | | | | |
| Loan to Government, | L.3,000,000 | | | |
| Cash and bullion, | 3,000,000 | | | |
| | | 6,000,000 | | |
| Funds yielding interest, | | L.27,240,635 | 5 per cent. | 1,362,030 |
| Charge for management of national debt, | | | L.246,700 | |
| Do. do. loans, | | | ... ... | |
| Do. do. lottery, | | | 3,000 | |
| | | | | 249,700 |
| Interest of capital, | | | | 350,604 |
| | | Carry forward. | | L.1,962,334 |

| | | |
|---|---|---|
| | Brought over, | L.1,962,334 |
| Deduct— | | |
| Expenses, | L.206,000 | |
| Stamps, | 32,000 | |
| Dividend 7 per cent. | 814,968 | |
| Bonus 5 per cent. | 582,120 | |
| | | 1,635,088 |
| | | L.327,246 |
| Property tax 6¼ per cent., | | 20,452 |
| Profit, | | L.306,794 |

YEAR COMMENCING 1805.

| | | | |
|---|---|---|---|
| Former savings, | | L.5,895,615 | |
| Profit, 1814, | | 306,794 | |
| | | L.6,202,409 | |
| Bank notes, | | 17,241,932 | |
| Deposits, | | 10,700,000 | |
| | | L.34,144,341 | |
| Loan to Government, | L.3,000,000 | | |
| Cash and bullion, | 3,000,000 | | |
| | | 6,000,000 | |
| | | L.28,144,341 per cent. | L.1,407,217 |
| Charge for management of national debt, | | L.254,400 | |
| Do. do. loan, | | 11,683 | |
| Do. do. lotteries, | | 4,000 | |
| | | | 270,083 |
| Interest on capital, | | | 350,604 |
| | | | L.2,027,904 |
| Deduct— | | | |
| Expenses, | | L.214,000 | |
| Stamps, | | 32,000 | |
| Dividend 7 per cent., | | 814,968 | |
| Bonus 5 per cent., | | 582,120 | |
| | | | 1,643,088 |
| | | | L.384,816 |
| Property tax 10 per cent. | | | 38,481 |
| | | | L.346,335 |

YEAR COMMENCING 1806.

| | |
|---|---|
| Former savings, | L.6,202,409 |
| Savings, 1805, | 346,335 |
| | L.6,548,744 |
| Bank notes, | 17,135,400 |
| Public deposits, | 11,000,000 |
| Carry forward, | L.34.684,144 |

| | | | | |
|---|---|---|---|---|
| Brought over, | | L.34,684,144 | | |
| Loan to Government, | L.3,000,000 | | at 3 per cent.* | L.90,000 |
| Cash and bullion, | 3,000,000 | | | |
| | | 6,000,000 | | |
| | | L.28,684,144 | at 5 per cent. | 1,434,207 |
| Charge for management of national debt, | | | L.275,000 | |
| Do. do. loan, | | | 18,130 | |
| Do. do. lotteries, | | | 2,000 | |
| | | | | 295,130 |
| Interest on capital, | | | | 350,604 |
| | | | | L.2,169,941 |
| Deduct— | | | | |
| Expenses, | | L.222,000 | | |
| Stamps, | | 32,000 | | |
| Dividend of 7 per cent., | | 814,968 | | |
| Bonus of 5 per cent. | | 582,120 | | |
| | | | | 651,083 |
| | | | | L.518,853 |
| Property tax, 10 per cent. on surplus, | | | L.51,885 | |
| † Do. do. on bonus and October dividend, | | | 98,960 | |
| | | | | 150,845 |
| | | Profit, | | L.368,008 |

YEAR COMMENCING JANUARY 1807

| | | | | |
|---|---|---|---|---|
| Former savings, | | L.6,548,744 | | |
| Profit, 1806, | | 368,008 | | |
| | | L.6,916,752 | | |
| Bank notes, | | 17,405,000 | | |
| Deposits, | | 11,000,000 | | |
| | | L.35,321,752 | | |
| Loan to Government, | L.3,000,000 | | at 3 per cent. | 90,000 |
| Cash and bullion, | 3,000,000 | | | |
| | | 6,000,000 | | |
| | | L.29,321,752 | | 1,466,087 |
| | | | | L.1,556,087 |
| Management of national debt, | | | L.280,500 | |
| Do. loans, | | | 16,115 | |
| Do. lotteries, | | | 5,000 | |
| Commission for receiving property tax, | | | 3,154 | |
| | | | | 304,769 |
| Interest on capital, | | | | 350,604 |
| | | | | L.2,211,460 |
| Deduct— | | | | |
| Expenses, | | | L.230,000 | |
| Stamps, | | | 42,000 | |
| | | | | 272,000 |
| | | | | L.1,939,460 |
| Dividend 10 per cent., | | | L.1,164,240 | |
| Property tax, | | | 193,946 | |
| | | | | 1,358,186 |
| | | Profit, | | L.581,274 |

* See note, p. 441.

† See note, p. 441.

YEAR COMMENCING 1808.

| | | | | |
|---|---|---|---|---|
| Former savings, | | | L.6,916,752 | |
| Profit, 1807, | | | 581,274 | |
| | | | L.7,498,026 | |
| Bank notes, | | | 17,534,580 | |
| Deposits, | | | 11,000,000 | |
| | | | L.36,032,606 | |
| Loan to Government, | L.3,000,000 | at 3 per cent | | L.90,000 |
| Do. | 3,000,000 | | | |
| Cash and bullion, | 3,000,000 | | | |
| | | 9,000,000 | | |
| | | L.27,032,606 | | 1,351,630 |
| | | | | L.1,441,630 |
| Management of national debt, | | | L.193,300 | |
| Do. loan, | | | 12,650 | |
| Do. lotteries, | | | 2,000 | |
| Commission for receiving property duty, | | | 3,154 | |
| | | | | 211,104 |
| Interest on capital, | | | | 350,604 |
| | | | | L.2,003,338 |
| Expenses, | | | L.239,000 | |
| Stamps, | | | 42,000 | |
| | | | | 281.000 |
| | | | | L.1,722,338 |
| Dividend, 10 per cent. | | L.1,164,240 | | |
| Property tax, do. | | 172,233 | | |
| | | | | 1,336,473 |
| | Profit, | | | L.385.865 |

YEAR COMMENCING JANUARY 1809.

| | | | | |
|---|---|---|---|---|
| Former savings, | | | L.7,498,026 | |
| Profit, 1808, | | | 385,865 | |
| | | | L.7,883,891 | |
| Bank notes, | | | 19,000,000 | |
| Deposits, | | | 11,000,000 | |
| | | | L.37,883,891 | |
| Loan to Government, | L.3,000,000 | at 3 per cent. | | L.90,000 |
| Ditto, without interest, | 3,000,000 | | | |
| Cash and bullion, | 3,000,000 | | | |
| | | 9,000,000 | | |
| | | L.28,883,891 | | 1,444,194 |
| Management of national debt, | | | L.205,500 | |
| Do. loan, | | | 8,400 | |
| Do. lotteries, | | | 3,000 | |
| Commission for receiving property duty, | | | 3,154 | |
| | | | | 220,054 |
| Interest on capital, | | | | 350,604 |
| | | Carry forward. | | L.2,104,852 |

| | | | |
|---|---|---|---|
| | Brought over, | | L.2,104,852 |
| Expenses, | L.246,000 | | |
| Stamps, | 42,000 | | |
| | | | 288,000 |
| | | | L.1,816,852 |
| Dividend 10 per cent., | L.1,164,240 | | |
| Property tax, | 181,852 | | |
| | | | 1,346,092 |
| Profit, | | | L.470,760 |

## YEAR COMMENCING JANUARY 1810.

| | | | |
|---|---|---|---|
| Former savings, | | L.7,883,891 | |
| Profit, | | 470,760 | |
| | | L.8,354,651 | |
| Bank notes, | | 22,730,000 | |
| Deposits, | | 11,000,000 | |
| | | L.42,084,651 | |
| Loan to Government, | L.3,000,000 | at 3 per cent., | L.90,000 |
| Ditto, without interest, | 3,000,000 | | |
| Cash and bullion, | 3,000,000 | | |
| | 9,000,000 | | |
| | L.33,084,651 | | 1,654,232 |
| | | | L.1,744,232 |
| Management of national debt, | L.200,800 | | |
| Do. loan, | 11,680 | | |
| Do. lotteries, | 3,000 | | |
| Commission for receiving property tax, | 3,154 | | |
| | | | 218,634 |
| Interest on capital, | | | 350,604 |
| | | | L.2,313,470 |
| Deduct— | | | |
| Expenses, | L.254,000 | | |
| Stamps, | 42,000 | | |
| | | | 296,000 |
| | | | L.2,017,470 |
| Dividend, 10 per cent., | L.1,164,240 | | |
| Property duty, | 201,747 | | |
| | | | 1,365,987 |
| Profit, | | | L.651,483 |

## YEAR COMMENCING JANUARY 1811.

| | | |
|---|---|---|
| Former savings, | | L.8,354,651 |
| Profit, 1810, | | 651,483 |
| Carry forward, | | L.9,006,134 |

| | | | | |
|---|---|---|---|---|
| | Brought over, | L.9,006,134 | | |
| Bank notes, | | 23,547,000 | | |
| Deposits, | | 11,000,000 | | |
| | | L.43,553,134 | | |
| Loan to Government, | L.3,000,000 | | at 3 per cent. | L.90,000 |
| Ditto, without interest, | 3,000,000 | | | |
| Cash and bullion, | 3,000,000 | | | |
| | | 9,000,000 | | |
| | | L.34,553,134 | | 1,727,765 |
| | | | | L.1,817,765 |
| Management of national debt, | | | L.211,300 | |
| Do. loan, | | | 14,705 | |
| Do. lotteries, | | | 4,000 | |
| Do. life annuities, | | | 206 | |
| Commission for receiving property duty, | | | 3,454 | |
| | | | | 233,662 |
| Interest on capital, | | | | 350,604 |
| | | | | L.2,402,031 |
| Expenses, | | | L.264,000 | |
| Stamps, | | | 42,000 | |
| | | | | 306,000 |
| | | | | L.2,096,031 |
| Dividend, 10 per cent., | | | L.1,164,240 | |
| Property tax, | | | 209,603 | |
| | | | | 1,373,843 |
| | Profit, | | | L.722,188 |

YEAR COMMENCING JANUARY 1812.

| | | | | |
|---|---|---|---|---|
| Former savings, | | L.9,006,134 | | |
| Profit, 1811, | | 722,188 | | |
| | | L.9,728,322 | | |
| Bank notes, | | 23,462,000 | | |
| Deposits, | | 11,000,000 | | |
| | | L.44,190,322 | | |
| Loan to Government, | L.3,000,000 | | at 3 per cent., | L.90,000 |
| Ditto, without interest, | 3,000,000 | | | |
| Cash and bullion, | 3,000,000 | | | |
| | | 9,000,000 | | |
| | | L.35,190,322 | | 1,759,516 |
| Management of national debt, | | | L.208,000 | |
| Do. loans, | | | 19,031 | |
| Do. life annuities, | | | 369 | |
| Commission for receiving property duty, | | | 3,154 | |
| | | | | 230,554 |
| Interest on capital, | | | | 350,604 |
| | | | | L.2,430,674 |
| Expenses, | | | L.273,000 | |
| Stamps, | | | 42,000 | |
| | | | | 315,000 |
| | | Carry forward, | | L.2,115,674 |

| | | |
|---|---|---|
| | Brought over, | L.2,115,674 |
| Dividend, 10 per cent., | L.1,164,240 | |
| Property duty, | 211,567 | |
| | | 1,375,807 |
| Profit, | | L.739,867 |

## YEAR COMMENCING JANUARY 1813.

| | | | |
|---|---|---|---|
| Former savings, | L.9,728,322 | | |
| 1812, | 739,867 | | |
| | L.10,468,189 | | |
| Bank notes, | 24,080,000 | | |
| Deposits, | 11,000,000 | | |
| | L.45,548,189 | | |
| Loan to Government, L.3,000,000 | | at 3 per cent., | L.90,000 |
| Ditto, without interest, 3,000,000 | | | |
| Cash and bullion, 3,000,000 | | | |
| | 9,000,000 | | |
| | L.36,548,189 | | 1,827,400 |
| | | | L.1,917,400 |
| Management of national debt, | | L.223,100 | |
| Do. loan, | | 21,639 | |
| Do. do. | | 2,000 | |
| Do. life annuities, | | 462 | |
| Commission for receiving property duty, | | 3,154 | |
| | | | 250,355 |
| Interest of capital, | | | 350,604 |
| | | | L.2,518,359 |
| Expenses, | | L.283,000 | |
| Stamps, | | 42,000 | |
| | | | 325,000 |
| | | | L.2,193,359 |
| Dividend, 10 per cent., | | L.1,164,240 | |
| Commission for receiving property duty, | | 219,333 | |
| | | | 1,383,573 |
| Profit, | | | L.809,786 |

## YEAR COMMENCING JANUARY 1814.

| | |
|---|---|
| Former savings, | L.10,468,189 |
| 1813, | 809,786 |
| | L.11,277,975 |
| Bank notes, | 27,840,000 |
| Deposits, | 11,000,000 |
| Carry forward, | L.50,117,975 |

| | | | |
|---|---|---|---|
| Brought over, | | L.50,117,975 | |
| Loan to Government without interest, . . | L.3,000,000 | | |
| Cash and bullion, . | 3,000,000 | | |
| | | 6,000,000 | |
| | | L.44,117,975 | L.2,205,898 |
| Management of national debt, . . . | | L.227,000 | |
| Do. loan, . . | | 42,200 | |
| Do. life annuities, . . . | | 576 | |
| Commission for receiving property duty, . . | | 3,154 | |
| | | | 272,930 |
| Interest of capital, . . . . . | | | 350,604 |
| | | | L.2,829,432 |
| Expenses, . . . . . | | L.292,000 | |
| Stamps, . . . . . | | 42,000 | |
| | | | 334,000 |
| | | | L.2,495,432 |
| Dividend, 10 per cent., . . . . | | L.1,164,240 | |
| Property tax, . . . . . | | 249,543 | |
| | | | 1,413,783 |
| Profit, . . . | | | L.1,081,649 |

YEAR COMMENCING JANUARY 1815.

| | | | |
|---|---|---|---|
| Former savings, . . . | | L.11,277,975 | |
| 1814, . . . . | | 1,081,649 | |
| | | L.12,359,624 | |
| Bank notes, . . . | | 27,300,000 | |
| Deposits, . . . . | | 11,000,000 | |
| | | L.50,659,624 | |
| Loan to Government, | L.3,000,000 | | |
| Cash and bullion, . | 3,000,000 | | |
| | | 6,000,000 | |
| | | L.44,659,624 | L.2,232,980 |
| Management of national debt, . . | | L.250,000 | |
| Do. loan, . . . . | | 28,800 | |
| Do. life annuities, . . . | | 700 | |
| Commission for receiving property tax, . . | | 3,154 | |
| | | | 282,654 |
| Interest on capital, . . . . . | | | 350,604 |
| | | | L.2,866,238 |
| Expenses, . . . . | | L.300,000 | |
| Stamps, . . . . | | 87,500 | |
| | | | 387,500 |
| | | | L.2,478,738 |
| Dividend, 10 per cent., . . . . . | | L.1,164,240 | |
| Property tax, . . . . . | | 247,873 | |
| | | | 1,412,113 |
| Profit, | | | L.1,066,625 |

JANUARY 1816.

| | |
|---|---|
| Former savings, | L.12,359,624 |
| Savings, 1815, | 1,066,625 |
| | L.13,426,249 |

## No. VI.

RESOLUTIONS PROPOSED CONCERNING THE BANK OF ENGLAND, BY MR GRENFELL.

1. That it appears, that there was paid by the public to the Bank of England, for managing the national debt, including the charge for contributions on loans and lotteries, in the year ending 5th of July 1792, the sum of 99,803*l.* 12s. 5d.; and that there was paid for the like service, in the year ending 5th April 1815, the sum of 281,568*l.* 6s. 11¼d.; being an increase of 181,764*l.* 14s. 6¼d. In addition to which, the Bank of England have charged at the rate of 1,250*l.* per million on the amount of property duty received at the Bank on profits arising from professions, trades, and offices.

2. That the total amount of bank notes and bank post bills, in circulation in the years 1795 and 1796 (the latter being the year previous to the restriction on cash payments), and in the year 1814, was as follows:—

| | | | |
|---|---|---|---|
| 1795, 1st Feb. | L.12,735,520 | and 1st Aug. | L.11,214,000 |
| 1796, 1st Feb. | 10,784,740 | and 1st Aug. | 9,856,110 |
| 1814, 1st Feb. | 25,154,950 | and 1st Aug. | 28,802,450 |

3. That at present, and during many years past, more particularly since the year 1806, considerable sums of public money, forming together an average stationary balance amounting to many millions, have been deposited with, or otherwise placed in the custody of the Bank of England, acting in this respect as the bankers of the public.

4. That it appears, from a report ordered to be printed 10th of August 1807, from "the Committee on the Public Expenditure of the United Kingdom," that the aggregate amount of balances and deposits of public money in the hands of the Bank of England, including bank notes deposited in the Exchequer, made up in four different periods of the quarter ending 5th January 1807, fluctuated betwixt the sums

Vide Report, p. 74 & 75.

of L.11,461,200 and 12,198,236 } including bank notes deposited in the chests of the Exchequer,

or

8,178,536 and 9,948,400 } excluding bank notes deposited at the Exchequer.

5. That the aggregate amount of such deposits, together with the exchequer bills and bank notes deposited in the chests of the four tellers of the Exchequer, was, on an average, in the year 1814,

L.11,966,371; including bank notes deposited at the Exchequer, amounting to 642,264

or

11,324,107; excluding bank notes deposited at the Exchequer.

6. That it appears, that this aggregate amount of deposits, together with such portions of the amount of bank notes and bank post bills in circulation as may have been invested by the Bank in securities bearing interest, was productive, during the same period, of interest and profit to the Bank of England.

7. That the only participation hitherto enjoyed by the public, since the year 1806, in the profits thus made on such deposits by the Bank, has consisted in a loan of 3 millions, advanced to the public by the Bank, by the 46 Geo. III. cap. 41, bearing 3 per cent. interest; which loan was discharged in December 1814: And in another loan of 3 millions, advanced to the public by the Bank, by the 48 Geo. III. cap. 3, free of any charge of interest; which loan became payable in December 1814, but has, by an Act of the present session of Parliament, cap. 16, been continued to the 6th of April 1816.

8. That this house will take into early consideration the advantages derived by the Bank, as well from the management of the national debt, as from the amount of balances of public money remaining in their hands, with the view to the adoption of such an arrangement, when the engagements now subsisting shall have expired, as may be consistent with what is due to the interests of the public, and to the rights, credit and stability, of the Bank of England.

13th June 1815.

---

## No. VII.

RESOLUTIONS PROPOSED CONCERNING THE BANK OF ENGLAND BY MR MELLISH.

1. That by the Act of 31 Geo. III. cap. 33, there was allowed to the Bank of England, for the management of the public debt, 450*l.* per million on the capital stock transferable at the Bank, amounting in the year ending 5th July 1792, to 98,803*l.* 12s. 5d. on about 219,596,000*l.* then so transferable; and that by the Act 48 Geo. III. cap. 4, the said allowance was reduced to the rate of 340*l.* per million on all sums not exceeding 600 millions, and to 300*l.* per million on all sums exceeding that amount, whereby the Bank was entitled, in the year ending 5th April 1815, to the sum of 241,971*l.* 4s. 2½d. on about 726,570,700*l.* capital stock, and 798*l.* 3s. 7d. on 2,347,588*l.*, 3 per cents. transferred for life annuities, being an increase of 143,965*l.* 15s. 4¼d. for management, and an increase of about 509,322,000*l.* capital stock: Also the Bank was allowed 1000*l.* for taking in contributions, amounting to 812,500*l.* on a lottery in the year ending 5th July 1792; and 38,798*l.* 19s. 2d. for taking in contributions, amounting to 46,585,533*l.* 6s. 8d. on loans and lotteries in the year ending 5th April 1815.

2. That it appears, that the Bank, in pursuance of the Act 46 Geo. III. cap. 65, has, from the year 1806 to the present time, made the assessments of the duty on profits arising from property, on the proprietors of the whole of the funded debt, transferable at the Bank of England, and has deducted the said duty from each of the several dividend warrants, which in one year, ending 5th April 1815, amounted in number to 565,600; and that this part of the business has been done without any expense to, or charge on, the public.

That in pursuance of the above-mentioned Act, the duties so deducted have from time to time been placed to the "account of the commissioners of the treasury, on account of the said duties," together with other sums received from the public by virtue of the said Act: part of this money is applied to the payment of certificates of allowances, and the remainder is paid into the Exchequer.

That by virtue of the said Act, the Lords Commissioners of the Treasury have made annual allowances, at the rate of 1,250*l.* per million, upon the amount so placed to the account of the Commissioners of the Treasury at the Bank of England, as a compensation for receiving, paying, and accounting for the same; which allowances, however, have not in any one year exceeded the sum of 3,480*l.*, and upon an average of eight years have amounted annually to 3,154*l.* only.

The amount of duties received for the year ending 5th April 1814, was 2,784,343*l.*, which, if it had been collected in the usual manner, at an allowance of 5d. per pound, would have cost the public 58,007*l.*; and the cost for collecting 20,188,293*l.*, being the whole of the duty received from 1806 to 1814, on which allowances have been made, would at the same rate have amounted to 420,589*l.*

That all monies received by the Bank on account of duties on property are paid into the Exchequer immediately after the receipt thereof: when this circumstance is contrasted with the ordinary progress of monies into the Exchequer, the advantage resulting to the public may be fairly estimated at 2 per cent., which, on the amount of duties for the year ending 5th April 1814, would be 55,686*l.*, and, on the total amount from 1806 to 1814, would be 403,765*l.*

3. That the total amount of bank notes and bank post bills in circulation in the years 1795 and 1796 (the latter being the year previous to the restriction on cash payments), and in the year 1814, was as follows:—

| | | | |
|---|---|---|---|
| 1795, 1st Feb. | L.12,735,520; | and 1st Aug. | L.11,214,000 |
| 1796, 1st Feb. | 10,784,740; | and 1st Aug. | 9,856,110 |
| 1814, 1st Feb. | 25,154,950; | and 1st Aug. | 28,802,450 |

4. That at present, and during many years past, both before and since the renewal of the charter of the Bank, considerable sums of the public money have been deposited with or otherwise placed in the custody of the Governor and Company of the Bank of England, who act in this respect as the banker of the public. The average balances of these deposits, both before and after the renewal of the charter, were as follows:—

| | |
|---|---|
| Public balances on an average of one year ending the 15th January 1800, | L.1,724,747 |
| Unclaimed dividends for the average of one year ending 1st January 1800, | 837,966 |
| | L.2,562,713 |

| | |
|---|---|
| Public balances on an average of eight years, from 1807 to 1815, . | L.4,375,405 |
| Unclaimed dividends, do. do. . | 634,614 |
| | L.5,010,019 |

5. That it appears from a report ordered to be printed 10th August 1807, from "the Committee on Public Expenditure of the United Kingdom," that the aggregate amount of balances and deposits of public money in the Bank of England, including bank notes deposited in the Exchequer, made up in four different periods of the quarter ending 5th January 1807, fluctuated between the sums of 11,461,200*l.* and 12,198,236*l.*; or, excluding bank notes deposited at the Exchequer, the amount fluctuated between 8,178,536*l.* and 9,948,400*l.*, the reason for which exclusion is not obvious, as by the Act of 48 Geo. III. cap. 3, the tellers of the Exchequer are authorised to take as securities on monies lodged, either exchequer bills or notes of the Governor and Company of the Bank of England. And it also appears, according to accounts laid before this house in the present session of Parliament, that the aggregate amount of such deposits, together with the exchequer bills and bank notes deposited in the chests of the four tellers of the Exchequer, was, on an average, in the year 1814—

L.11,966,371; including bank notes deposited at the Exchequer, amounting to 642,264*l.*
11,324,107; excluding bank notes deposited at the Exchequer.

6. That it appears, according to accounts before this house, that the average of the aggregate amount of balances of public money in the hands of the Bank of England, from February 1807 to February 1815, was 5,010,019*l.*; and that the average of bills and bank notes deposited in the chests of the four tellers of the Exchequer, from August 1807 to April 1815, was 5,968,793*l.*, making together 10,978,812*l.*, being 850,906*l.* less than the average of the said accounts for one year ending 5th January 1807, as stated in the report of the Committee on the Public Expenditure.

7. That by the 39 and 40 Geo. III. cap. 28, extending the charter of the Bank for twenty-one years, the Bank advanced to the public 3,000,000*l.* for six years without interest, and extended the loan of 11,686,800*l.* for twenty-one years at an interest of 3 per cent. per annum, as a consideration for the privileges, profits, emoluments, benefits, and advantages granted to the Bank by such extension of its charter.

| | |
|---|---|
| That the interest of 3,000,000*l.* for six years, at 5 per cent. per annum, is | L.900,000 |
| That the difference between 3 per cent. and 5 per cent. on 11,686,800*l.* is 233,736*l.*, which in twenty-one years amounts to . . | 4,908,456 |
| That the above loan of 3,000,000*l.* was continued to the public from 1806, when it became payable, until 1814, at an interest of 3 per cent., making an advantage in favour of the public of 2 per cent., or 60,000*l.* per annum, which in eight years and eight months amounts to . . . . . | 520,000 |
| That in 1808, the Bank advanced to the public 3,000,000*l.* without interest, which, by an Act of the present session, is to remain without interest until the 5th of April 1816; the interest on this advance, at 5 per cent., will, for eight years, amount to . | 1,200,000 |

8. That by the 39 and 40 Geo. III. cap. 28, sec. 13, it is enacted, that during the continuance of the charter, the Bank shall enjoy all privileges, profits, emoluments, benefits, and advantages whatsoever, which they now possess and enjoy by virtue of any employment by or on behalf of the public.

That, previously to such renewal of their charter, the Bank was employed as the

public banker, in keeping the cash of all the principal departments in the receipt of the public revenue, and in issuing and conducting the public expenditure.

That the average amount of the public balances in the hands of the Bank, between the 1st February 1814 and the 15th January 1815, upon accounts opened at the Bank previously to the renewal of the charter on the 28th March 1800, was L.4,337,025

Unclaimed dividends for the average of one year ending 1st January 1815, 779,794

L.5,116,819

That the average public balances in the hands of the Bank during the same period, upon accounts opened at the Bank between the 28th March 1800 and the 27th February 1808, was L.370,018

That the average public balances in the hands of the Bank during the same period, upon accounts opened at the Bank subsequent to the 27th February 1808, was . . . . . L.261,162

9. That whenever the engagements now subsisting between the public and the Bank shall expire, it may be proper to consider the advantages derived by the Bank from its transactions with the public with a view to the adoption of such arrangements as may be consistent with those principles of equity and good faith which ought to prevail in all transactions between the public and the Bank of England

June 26, 1815

ON

# PROTECTION

TO

# AGRICULTURE.

FOURTH EDITION.

LONDON.

1822.

# INTRODUCTION.

It cannot, I think, be denied, that, within these few years, great progress has been made in diffusing correct opinions on the impolicy of imposing restrictions on the importation of foreign corn; but, unhappily, much prejudice yet exists on this subject, and it is to be feared that the generally prevailing errors in the minds of those who are suffering from the distressed state of our agriculture, may lead to measures of increased restriction, rather than to the only effectual remedy for those distresses, the gradual approach to a system of free trade. It is to the present corn-law that much of the distress is to be attributed, and I hope to make it appear, that the occupation of a farmer will be exposed to continual hazard, and will be placed under peculiar disadvantages, as compared with all other occupations, while any system of restriction on the importation of foreign corn is continued, which shall have the effect of keeping the price of corn in this country habitually and considerably above the prices of other countries.

Before I proceed, however, to this, which is the main object that I have in view, I wish to notice some of the prevailing opinions which are daily advanced on the subject of the causes of the present distress; on the doctrine of remunerating price; on taxation; on currency, &c.: after disposing of these, we shall be better able to examine the important question of what ought to be the permanent regulations of this country, respecting the trade in corn, in order to afford the greatest security to the people, for a cheap and steady price, with an abundant supply of that essential article.

# ON PROTECTION TO AGRICULTURE.

## SECTION I.

### On Remunerating Price.

The words Remunerative Price are meant to denote the price at which corn can be raised, paying all charges, including rent, and leaving to the grower a fair profit on his capital. It follows from this definition, that in proportion as a country is driven to the cultivation of poorer lands for the support of an increasing population, the price of corn, to be remunerative, must rise: for even if no rent is paid for such poorer land—as the charges on its cultivation must, for the same quantity of produce, be greater than on any other land previously cultivated, those charges can only be returned to the grower by an increase of price. "I know districts of the country,"* says Mr Iveson, "taking the very best qualities in them, that will produce from four to five quarters by the acre. I know there are farms that have averaged in the wheat crop, four quarters to the acre, or 32 bushels." "In what part of the kingdom?—In Wiltshire." "What would you estimate the second quality of land at?—I think the middling, or second, what I should call the middling quality of lands under good cultivation, may be taken at two quarters and a half." "And the inferior lands?—From 12 to 15 bushels an acre." Mr Harvey was asked, "What is the lowest rent you have ever known to be paid for the worst land on which corn is raised?—Eighteen-pence an acre." Mr Harvey further stated, that on an average of the last ten years he had obtained 30 bushels of wheat per acre from his land. Mr Wakefield's evidence was to the same effect as Mr Iveson's; but the difference according to him between the produce of wheat per acre on the best and worst land in cultivation was as much as 32 bushels; for he said "that on the sea coast of Norfolk, Suffolk, Essex, and Kent, the crop is thought a bad one, if it be not 40 bushels per acre;" and he added, "I do not believe that the very poor lands produce above eight bushels per acre."

* Report, Agricultural Committee, 1821, page 338.

Suppose now, that the population of England had only been one-half its present amount, and that it had not been neeessary to take any other quality of land into eultivation than that which yielded 32 bushels of wheat per acre; what would have been the remunerative priee? Can any one doubt of its being so low that, if the priees on the Continent had been at the same average at which they have been for the last five or ten years, we should have been an exporting instead of an importing eountry? It is true, that this land now yields 32 bushels, and would have yielded no more on the supposition that I have made; but is it not true, that the value of the 32 bushels now raised is regulated by the eost of produeing the 12 or 15 bushels on the inferior lands of which Mr Iveson speaks? If the eost of raising 15 bushels of wheat is as great now as the eost was of raising 30 bushels formerly, the price must be doubled to be remunerative, for the degree in whieh the price must rise to eompensate the producer for the eharges whieh he has to pay does not depend on the quantity produeed, nor on the quantity eonsumed, but on the eost of its production. The differenee in the value of the quantity raised on the good land, and on the inferior land, will always eonstitute rent; so that the profits of the oeeupiers of the good and bad land will be the same, but the rent of the best land will exceed the rent of the worst by the difference in the quantity of produee, which, with the same expense, it ean be made to yield. It is now universally admitted, that rent is the effeet of the rise in the priee of eorn, and not the cause; it is also admitted, that the only permanent eause of rise in the value of eorn, is an inereased eharge on its production, eaused by the neeessity of eultivating poorer lands; on whieh, by the expenditure of the same quantity of labour, the same quantity of produee eannot be obtained.

Is it not true that the rent on the better land is regulated by the lesser quantity of 15 bushels, with whieh we are now obliged to be eontented on our poorer lands? The rent which is now a eharge on eultivating the land whieh yields the 32 bushels, and which is equal to the value of 17 bushels, the differenee between 15 and 32 bushels, eould not have existed if no land was eultivated but such as yielded 32 bushels. If, then, with the eharge of rent, the eost of raising 15 bushels on the rieh land—and without the payment of rent, the eost of raising the same quantity on the poor land, is now as great as the eost of raising 30 bushels was formerly on the rich land, when no rent was paid, the priee must be doubled.

It appears, then, that, in the progress of soeiety, when no importation takes place, we are obliged eonstantly to have reeourse to worse soils to feed an augmenting population, and with every step of our progress the priee of corn must rise, and with sueh rise, the rent of the better land whieh had been previously eultivated, will neeessarily be inereased. A higher priee beeomes neeessary to compensate for the smaller quantity whieh is obtained; but this higher priee must never be eonsidered as a good—it would not have

existed if the same return had been obtained with less labour—it would not have existed if, by the application of labour to manufactures, we had indirectly obtained the corn by the exportation of those manufactures in exchange for corn. A high price, if the effect of a high cost, is an evil, and not a good; the price is high, because a great deal of labour is bestowed in obtaining the corn. If only a little labour was bestowed upon it, more of the labour of the country, which constitutes its only real source of wealth, would have been at its disposal to procure other enjoyments which are desirable.

---

## SECTION II.

### On the Influence of a Rise of Wages on the Price of Corn.

Much of what has been said in the foregoing section, would probably be allowed by some of those who are the advocates for a restricted trade in corn; they would, however, add, that though it could be shown that no protecting duties on the importation of corn could be justifiable, merely on account of the increased expenditure of labour necessary to obtain a given quantity in this country; yet such duties were necessary to protect the farmer against the effects of high wages in this country, caused by the taxation which falls on the labouring classes, and which must be repaid to them by their employers, by means of high wages. This argument proceeds on the assumption, that high wages tend to raise the price of the commodities on which labour is bestowed. If the farmer, they say, could, before taxation, and the high wages which are the effect of it, compete with the foreign grower of corn, he can no longer do so now he is exposed to a burthen from which his competitor is free.

This whole argument is fallacious,—the farmer is placed under no comparative disadvantage in consequence of a rise of wages. If, in consequence of taxes paid by the labouring class, wages should rise, which they in all probability would do, they would equally affect all classes of producers. If it be deemed necessary that corn should rise in order to remunerate the growers, it is also necessary that cloth, hats, shoes, and every other commodity should rise, in order to remunerate the producers of those articles. Either, then, corn ought not to rise, or all other commodities should rise along with it.

If neither corn, nor any other commodity, rise, they will of course be all of the same relative value as before; and if they do all rise, the same will be true. All must require protecting duties, or none. To impose protecting duties on all commodities would be absurd, because nothing would be gained by it—it would in no way alter the relative value of commodities; and it is only by altering the

relative value of commodities that any particular trade is protected, not merely by an alteration of price. If England gave a yard of superfine cloth to Germany for a quarter of wheat, she would neither be more nor less disposed to carry on this trade, if both cloth and corn were raised 20 per cent. in price. All foreign trade finally resolves itself into an interchange of commodities; money is but the measure by which the respective quantities are ascertained. No commodity can be imported unless another commodity is exported; and the exported commodity must be equally raised in price by the rise of wages. It is essential that a drawback should be allowed on the exported article, if the one imported be protected by a duty. But it comes to the same thing, if no drawback be allowed on the one, nor protection granted to the other, because, in either case, precisely the same quantity of the foreign commodity will be obtained for a given quantity of the home-made commodity.

If a quarter of corn be raised from 60s. to 75s., or 25 per cent. by a rise of wages, and a certain quantity of hats or cloth be raised in the same proportion by the same cause, the importer of corn into England would lose just as much by the commodity which he exports as he would gain by the corn which he imports. If trade were left free, corn would not rise from 60s. to 75s., notwithstanding the rise of wages; nor would cloth, or hats, or shoes, rise from this cause. But, if I should allow that they would rise, it would make no difference to my argument; we should then export money in exchange for corn, because no commodity could be so profitably employed in paying for it; for, by the supposition, every other commodity is raised in price. The exportation of money would gradually lessen the quantity, and raise its value in this country, while the importation of it into other countries would have a contrary effect in them; it would increase the quantity, and sink its value, and thus the price of corn, of cloth, of hats, and of all other things in England, would bear the same relation to the prices of the same commodities in other countries as they bore before wages were raised. In all cases, the rise of wages, when general, diminishes profits, and does not raise the prices of commodities. If the prices of commodities rose, no producer would be benefited; for of what consequence could it be to him to sell his commodity at an advance of 25 per cent., if he, in his turn, were obliged to give 25 per cent. more for every commodity which he purchased? He would be precisely in the same condition, whether he sold his corn for 25 per cent. advance, and gave an additional 25 per cent. in the price of his hats, shoes, clothes, &c., &c., as if he sold his corn at the usual price, and bought all the commodities which he consumed at the prices which he had before given for them. No one class of producers, then, is entitled to protection on account of a rise of wages, because a rise of wages equally affects all producers; it does not raise the prices of commodities because it diminishes profits; and, if it did raise the price of commodities, it would raise them all in

the same proportion, and would not, therefore, alter their exchangeable value. It is only when commodities are altered in relative value, by the interference of Government, that any tax, which shall act as a protection against the importation of a foreign commodity, can be justifiable.

It is by many supposed, that a rise in the price of corn will raise the price of all other things; this opinion is founded on the erroneous view which they take of the effect of a general rise of wages. Corn rises because it is more difficult to produce, and its cost is raised; it would be no rise at all if all other things rose with it. It is a real rise to the hatter and clothier, if they are obliged, one to give more hats, the other more cloth, for their corn; it would be no rise at all to them, and it would be impossible to show who paid for the increased cost, if their commodities also rose, and exchanged for the same quantity of corn.

It may be laid down as a principle, that any cause which operates in a country to affect equally all commodities, does not alter their relative value, and can give no advantage to foreign competitors, but that any cause which operates partially on one does alter its value to others, if not countervailed by an adequate duty; it will give advantage to the foreign competitor, and tend to deprive us of a beneficial branch of trade.

---

## SECTION III.

### On the Effects of Taxes imposed on a particular Commodity.

For the same reasons that protecting duties are not justifiable on account of the rise of wages generally, from whatever cause it may proceed, it is evident that they are not to be defended when taxation is general, and equally affects all classes of producers. An income tax is of this description; it affects equally all who employ capital, and it has never yet been suggested by those most favourable to protecting duties that any would be necessary on account of an income tax. But a tax affecting equally all productions is precisely of the same description as an income tax, because it leaves them, after the tax, of the same relative value to each other as before it was imposed. The rise of wages, a tax on income, or a proportional tax on all commodities, all operate in the same way; they do not alter the relative value of goods, and therefore they do not subject us to any disadvantage in our commerce with foreign countries. We suffer indeed the inconvenience of paying the tax, but from that burthen we have no means of freeing ourselves.

A tax, however, which falls exclusively on the producers of a particular commodity tends to raise the price of that commodity,

and if it did not so raise it the producer would be under a disadvantage as compared with all other producers; he would no longer gain the general and ordinary profits by his trade. By rising in price, the value of this commodity is altered as compared with other commodities. If no protecting duty is imposed on the importation of a similar commodity from other countries, injustice is done to the producer at home, and not only to the producer but to the country to which he belongs. It is for the interest of the public that he should not be driven from a trade which, under a system of free competition, he would have chosen, and to which he would adhere if every other commodity were taxed equally with that which he produces. A tax affecting him exclusively is, in fact, a bounty to that amount on the importation of the same commodity from abroad; and to restore competition to its just level, it would be necessary not only to subject the imported commodity to an equal tax, but to allow a drawback of equal amount, on the exportation of the home-made commodity.

The growers of corn are subject to some of these peculiar taxes, such as tithes, a portion of the poor's rate, and perhaps, one or two other taxes, all of which tend to raise the price of corn, and other raw produce, equal to these peculiar burthens. In the degree, then, in which these taxes raise the price of corn, a duty should be imposed on its importation. If from this cause it be raised 10s. per quarter, a duty of 10s. should be imposed on the importation of foreign corn, and a drawback of the same amount should be allowed on the exportation of corn. By means of this duty and this drawback, the trade would be placed on the same footing as if it had never been taxed, and we should be quite sure that capital would neither be injuriously for the interests of the country, attracted towards, nor repelled from it.

The greatest benefit results to a country when its Government forbears to give encouragement, or oppose obstacles, to any disposition of capital which the proprietor may think most advantageous to him. By imposing tithes, &c. on the farmer exclusively, no obstacle would be opposed to him, if there were no foreign competition, because he would be able to raise the price of his produce, and if he could not do so he would quit a trade which no longer afforded him the usual and ordinary profits of all other trades. But if importation was allowed, an undue encouragement would be given to the importation of foreign corn, unless the foreign commodity were subject to a duty, equal to tithes or any other exclusive tax imposed on the home grower.

But the home grower would still have to complain, if he was refused a drawback on exportation, because he might then say, "Before your duty, and before the price of my produce was raised in consequence of it, I could compete with the foreign grower in foreign markets; by making the remunerating price of my corn higher, you have deprived me of that advantage, therefore give me

a drawback equal to the duty, and you, in every respect, restore me to the position, as it regards both my own countrymen, as producers of other commodities, and foreign growers of raw produce, in which I was before placed." On every principle of justice, and consistently with the best interests of the country, his demand should be acceded to.

---

## SECTION IV.

### On the Effect of Abundant Crops on the Price of Corn.

In a former section I have endeavoured to show, that the price of corn, to be remunerative, must pay all the charges of its production, including in those charges the ordinary profits of the stock employed. It is, in fact, by these conditions being fulfilled, that the supply, on an average of years, is regulated. If the price obtained be less than remunerative, profits will be depressed, or will entirely disappear. If it be more than remunerative, profits will be high. In the first case, capital will be withdrawn from the land, and the supply will gradually conform to the demand. In the second case, capital will be attracted to the land, and the supply will be increased. But, notwithstanding this tendency of the supply of corn to conform itself to the demand, at prices which shall be remunerative, it is impossible to calculate accurately on the effects of the seasons. Sometimes, for a few years successively, crops will be abundant; at other times they will, for an equal period, be scanty and insufficient. When the quantity of corn at market, from a succession of good crops, is abundant, it falls in price, not in the same proportion as the quantity exceeds the ordinary demand, but very considerably more. The demand for corn, with a given population, must necessarily be limited; and, although it may be, and undoubtedly is, true, that when it is abundant and cheap, the quantity consumed will be increased, yet it is equally certain, that its aggregate value will be diminished. Suppose 14 millions of quarters of wheat to be the ordinary demand of England, and that, from a very abundant season, 21 millions are produced. If the remunerative price were 3*l*. per quarter, and the value of the 14 millions of quarters 42,000,000*l*., there cannot be the least doubt, that the 21 millions of quarters would be of very considerably less value than 42,000,000*l*. No principle can be better established, than that a small excess of quantity operates very powerfully on price. This is true of all commodities; but of none can it be so certainly asserted as of corn, which forms the principal article of the food of the people. The principle, I believe, has never been denied by those who have turned their attention to this subject. Some, indeed, have attempted to estimate the fall of price which would take place, under the sup-

position of the surplus bearing different proportions to the average quantity. Such calculations, however, must be very deceptious, as no general rule can be laid down for the variations of price in proportion to quantity. It would be different in different countries; it must essentially depend on the wealth or poverty of the country, and on its means of holding over the superfluous quantity to a future season. It must depend, too, on the opinions formed of the probability of the future supply being adequate or otherwise to the future demand. This, however, is, I think, certain, that the aggregate value of an abundant crop will always be considerably less than the aggregate value of an average one; and that the aggregate value of a very limited crop will be considerably greater than that of an average crop. If 100,000 loaves were sold every day in London, and the supply should all at once be reduced to 50,000 per day, can any one doubt but that the price of each loaf would be considerably more than doubled? The rich would continue to consume precisely the same number of loaves, although the price was tripled or quadrupled. If, on the other hand, 200,000 loaves, instead of 100,000, were daily exposed for sale, could they be disposed of without a fall of price, far exceeding the proportion of the excess of quantity? Why is water without value, but because of its abundance? If corn were equally plenty, it would have no greater value, whatever quantity of labour might have been bestowed on its production.

In proof of the correctness of this view, I may refer to the prices of wheat in this country in different seasons of plenty, when it will be seen that, notwithstanding we were in a degree relieved by exportation, yet, from the abundance of crops, corn has been known to fall 50 per cent in three years. Now, to what can this be imputed but to excess of quantity? The document which follows is copied from Mr Tooke's evidence before the committee of 1821.

| | | s. | d. | | Quarters. |
|---|---|---|---|---|---|
| In 1728 | the price of wheat was | 48 | $5\frac{1}{2}$ | with an excess of import of | 70,757 |
| 1732 | . . . . . | 23 | $8\frac{1}{2}$ | with an excess of export of | 202,058 |
| 1740 | . . . . . | 45 | $0\frac{1}{2}$ | . . . . . | 46,822 |
| 1743 | . . . . . | 22 | 1 | . . . . . | 371,429 |
| 1750 | . . . . . | 28 | $10\frac{3}{4}$ | . . . . . | 947,323 |
| 1757 | . . . . . | 53 | 4 | excess of import | 130,017 |
| 1761 | . . . . . | 26 | $10\frac{3}{4}$ | excess of export | 441,956 |

Page 229, *Agricultural Report.*

Because it has been said, that abundance may be prejudicial to the interests of the producers, it has been objected that the new doctrine on this subject is, that the bounty of Providence may become a curse to a country; but this is essentially changing the proposition. No one has said that abundance is injurious to a country, but that it frequently is so to the producers of the abundant commodity. If what they raised was all destined for their own consumption, abundance never could be hurtful to them; but if, in consequence of the plenty of corn, the quantity with which they go to market to furnish themselves with other things is very much reduced in value,

they are deprived of the means of obtaining their usual enjoyments; they have, in fact, an abundance of a commodity of little exchangeable value. If we lived in one of Mr Owen's parallelograms, and enjoyed all our productions in common, then no one could suffer in consequence of abundance; but as long as society is constituted as it now is, abundance will often be injurious to producers, and scarcity beneficial to them.

---

## SECTION V.

### On the Effect produced on the Price of Corn by Mr Peel's Bill for restoring the Ancient Standard.

Much difference of opinion prevails on the effect produced on the price of corn by Mr Peel's bill for restoring the ancient standard. On this subject there is a great want of candour in one of the disputing parties; and I believe it will be found, that many of those who contended, during the war, that our money was not depreciated at all, now endeavour to show that the depreciation was then enormous, and that all the distresses which we are now suffering have arisen from restoring our currency from a depreciated state to par.

It is also forgotten that, from 1797 to 1819, we had no standard whatever by which to regulate the quantity or value of our money. Its quantity and its value depended entirely on the Bank of England, the Directors of which establishment, however desirous they might have been to act with fairness and justice to the public, avowed that they were guided in their issues by principles which, it is no longer disputed, exposed the country to the greatest embarrassment. Accordingly, we find that the currency varied in value considerably during the period of twenty-two years, when there was no other rule for regulating its quantity and value but the will of the Bank.

In 1813 and 1814 the depreciation of our currency was probably at its highest point, gold being then 5*l.* 10s. and 5*l.* 8s. per ounce; but, in 1819, the value of paper was only 5 per cent. below its ancient standard, gold being then 4*l.* 2s. or 4*l.* 3s. per ounce. It was in 1819 that Mr Peel's bill passed into a law. At the time of passing that bill, Parliament had to deal with the question as it then presented itself. It was thought expedient that an end should be put to a state of things which allowed a company of merchants to regulate the value of money as they might think proper; and the only point which could then come under consideration was, whether the standard should be fixed at 4*l.* 2s., which was the price of gold, not only at the time when Parliament was legislating, but its price for nearly the whole of the four preceding years; or the ancient standard of 3*l.* 17s. 10½d. should be restored. Between these two

prices Parliament was constrained to determine, and, I think, in choosing to go back to the ancient standard, it pursued a wise course. But when it is now said that money has been forcibly raised in value,—25 per cent., according to some; 50, and even 60 per cent., according to others,—they do not refer to 1819, the period at which that bill passed, but to the period of the greatest depression; and they charge the whole increase in the value of the currency to Mr Peel's bill. Now, it is to the system which allowed of such variations in the value of money that Mr Peel's bill put an end. If, indeed, in 1819, or immediately preceding 1819, gold had been at 5*l.* 10s. an ounce, no measure could have been more inexpedient than to make so violent a change in all subsisting engagements, as would have been made by restoring the ancient standard; but the price of gold, as I have already said, was then, and had been for four years, about 4*l.* 2s., never above, and frequently rather under, that price; and no measure could have been so monstrous as that which some reproach the House of Commons for not having adopted, namely, of fixing the standard at 5*l.* 10s.; that is, in other words, after the currency had regained its value within 5 per cent. of gold, under the operation of the bad system, again to have degraded it to 30 per cent. below the value of gold.

It will be remembered, that a plan was by me submitted to the country for the restoration of a fixed standard, which would have rendered the employment of any greater quantity of gold than the Bank then possessed wholly unnecessary.

That plan was to make the Bank liable to the payment of a certain large and fixed amount of their notes in gold bullion at the Mint price of 3*l.* 17s. 10½d. an ounce, instead of payment in gold coin. If that plan had been adopted, not a particle of gold would have been used in the circulation,—all our money must have consisted of paper, excepting the silver coin necessary for payments under the value of a pound. In that case it is demonstrable, that the value of money could only have been raised 5 per cent. by reverting to the fixed ancient standard, for that was the whole difference between the value of gold and paper. There was nothing in the plan which could cause a rise in the value of gold, for no additional quantity of gold would have been required, and therefore 5 per cent. would have been the full extent of the rise in the value of money.* Mr Peel's bill adopted this plan for four years, after which payments in coin were to be established. If for the time specified by the bill the Bank Directors had managed their affairs with the skill which the public interest required, they would have been satisfied with so regulating their issues, after Mr Peel's bill

* With 4*l.* 2s. in bank notes, any one could purchase precisely the same quantity of commodities as with the gold in 3*l.* 17s. 10½d.; the object of the plan was to make 3*l.* 17s. 10½d. in bank notes, as valuable as 3*l.* 17s. 10½d. in gold. To effect this object, could it have been necessary, could it, indeed, have been possible, to lower the value of goods more than 5 per cent., if the value of gold had not been raised?

passed, that the exchange should continue at par, and consequently no importation of gold could have taken place; but the Bank, who always expressed a decided aversion to the plan of bullion payments, immediately commenced preparations for specie payments. Their issues were so regulated, that the exchange became extremely favourable to this country; gold flowed into it in a continued stream, and all that came the Bank eagerly purchased at 3*l.* 17s. 10½d. per ounce. Such a demand for gold could not fail to elevate its value compared with the value of all commodities. Not only, then, had we to elevate the value of our currency 5 per cent., the amount of the difference between the value of paper and of gold before these operations commenced, but we had still farther to elevate it to the new value to which gold itself was raised by the injudicious purchases which the Bank made of that metal. It cannot, I think, be doubted, that if bullion payments had been fairly tried for three out of the four years between 1819 and 1823, and had been found fully to answer all the objects of a currency regulated by gold at a fixed value, the same system would have been continued, and we should have escaped the further pressure which the country has undoubtedly undergone from the effects of the great demand for gold which specie payments have entailed upon us.

The Bank Directors urge in defence of the measures which they have pursued the complaints which were made against them on account of the frequent executions for forgery, which rendered it indispensable that they should withdraw the one-pound notes from circulation for the purpose of replacing them with coin. If they could not substitute a note better calculated to prevent forgery than the one which they have hitherto used, this plea is a valid one, for the sacrifice of a small pecuniary interest could not be thought too great if it took away the temptation to the crime of forgery, for which so many unfortunate persons were annually executed; but this excuse comes with a bad grace from the Bank of England, who did not discover the importance of preventing forgery by the issue of coin till 1821, after they had made such large purchases of gold that they were under the necessity of applying to Parliament for a bill to enable them to issue coin in payment of their notes, which, by Mr Peel's bill, they were prevented from doing till 1823. How comes it that they did not make this discovery in 1819, when the committees of the Lords and Commons were sitting on bank payments? Instead of being eager at that period to commence specie payments, they remonstrated, in a manner which many thought unbecoming, against any plan of metallic payments which did not leave the uncontrolled power of increasing or diminishing the amount of the currency in their hands. It surely is not forgotten, that, on an application by the Lords' Committee to the Bank, dated the 24th March 1819, asking if "the Bank had any and what objections to urge against the passing a law to require it should pay its notes in bullion on demand, but in sums not less in

amount than 100*l.*, 200*l.*, or 300*l.*, at 3*l.* 17s. 10½d., and to buy gold bullion at 3*l.* 17s. 6d. by an issue of its notes, the said plan to commence after a period to be fixed for that purpose;" the Directors answered, "the Bank has taken into consideration the question sent by the Committee of the House of Lords, under date of the 24th March, and is not aware of any difficulty in exchanging, for a fixed amount of bank notes, gold bullion of a certain weight, provided it be melted, assayed, and stamped by his Majesty's Mint.

"The attainment of bullion by the Bank at 3*l.* 17s. 6d. is, in the estimation of the Court, so uncertain, that the Directors, in duty to their proprietors, do not feel themselves competent to engage to issue bullion at the price of 3*l.* 17s. 10½d.; but the Court beg leave to suggest, as an alternative, the expediency of its furnishing bullion of a fixed weight to the extent stated at the market price as taken on the preceding foreign post-day, in exchange for its notes, provided a reasonable time be allowed for the Bank to prepare itself to try the effect of such a measure."

If this proposal had been acceded to, the Bank would itself have determined the price at which it should have sold gold from time to time to the public, because by extending or curtailing their issues, they had the power to make the price of gold just what they pleased, 4*l.* or 10*l.* an ounce, and at that price to which they might choose to elevate it, they graciously proposed to sell it, "provided a reasonable time be allowed to prepare itself to try the effect of such a measure."

After this proposal, after the representation made to the Chancellor of the Exchequer by the Directors of the Bank of England on the 20th May 1819,* it will not be said that the question of forgery appeared so urgent to the Directors that they were eager to substitute coin for their small notes in 1819, however important the question became in their view in 1820.

It is a question exceedingly difficult to determine what the effect has been on the value of gold, and consequently on the value of money produced by the purchases of bullion made by the Bank. When two commodities vary, it is impossible to be certain whether one has risen, or the other fallen. There are no means of even approximating to the knowledge of this fact, but by a careful comparison of the value of the two commodities, during the period of their variation, with the value of many other commodities.

Even this comparison does not afford a certain test, because one-half of the commodities to which they are compared, may have varied in one direction, while the other half may have varied in another: by which half shall the variation of gold be tried? If by one it appears to have risen, if by the other to have fallen. From observations, however, on the price of silver, and of various other commodities, making due allowance for the particular causes which

* See Appendix A.

may have specially operated on the value of each, Mr Tooke, one of the most intelligent witnesses examined by the Agricultural Committee, came to the conclusion that the eager demand for gold made by the Bank in order to substitute coin for their small notes, had raised the value of currency about 5 per cent. In this conclusion, I quite concur with Mr Tooke. If it be well founded, the whole increased value of our currency since the passing of Mr Peel's bill in 1819, may be estimated at about 10 per cent. To that amount, taxation has been increased by the measure for restoring specie payment; to that amount the fall of grain, and with it of all other commodities, has taken place as far as this cause alone has operated on them; but all above that amount, all the further depression which the price of corn has sustained, must be accounted for by the supply having exceeded the demand; a depression, which would have equally occurred, if no alteration whatever had been made in the value of the currency.

It is, indeed, alleged by many of the landed interest, that to one cause alone, all the distress in agriculture is to be ascribed. They go so far as to say, that there is now no surplus produce on the land, but what is paid to the Government for taxes; that there is nothing whatever left for rent or profit; that whatever rent is paid, is derived from the capital of the farmer, and all these effects they charge on the alteration in the value of the currency.

It is evident that those who advance this most extravagant proposition, do not know how the alteration in the value of the currency affects the different interests of a country. If it injures the debtor, it in the same degree benefits the creditor; if its pressure is felt by the tenant, it must be advantageous to the landlord, and to the receivers of taxes. They, then, who maintain this doctrine, must be prepared to contend that all that fund, which formerly constituted the rent of the landlord, and the profits of the farmer, are, by the alteration in the value of money, transferred to the State, and are now paid to the receivers of taxes, and, among them, the stock-holders. That the situation of the stock-holder is improved, by his dividends being paid in a currency increased in value, there can be no doubt; but what evidence is there to show that his situation is so much improved, that he has now at his disposal, in addition to his former means of enjoyment, all those which were before at the disposal of the whole of the tenantry, and of the landlords of the country? So wild an assertion cannot be for a moment entertained; we have not heard of splendid equipages and superb mansions having been built by the stock-holders since, and in consequence of, the bill of 1819. Besides, if this were true, how comes it that the profits of the merchant and manufacturer have escaped the fund-holder, this devouring monster, as he has been called? Are not their profits governed by the same principle, and by the same law, as the profits of the farmer? How have they contrived to exempt themselves from this desolating storm? The

answer is plain, there is no truth in the allegation. Agriculture has been depressed by causes of which the currency forms only a little part. The peculiar hardships which the landed interest are suffering, are of a temporary character, and will continue only while the supply of produce exceeds the demand. A remunerative price is impossible while this cause of low value continues; but the situation of things which we now witness cannot have any permanence.

Is it not quite certain, that if the pressure on the farmers, from the alteration in the value of currency, and the increased taxation consequent upon it, has been so great as to take from them all the profits of their capital, it must also have taken away the profits of all other persons employing capital? for it is quite impossible that one set of capitalists should be permanently without any profit at all, whilst others are making reasonable profits.

On the part of the landlords it may be said, that they are encumbered with fixed charges on their estates, such as dowers, provision for daughters, and younger children, mortgages, &c. It cannot be denied that an alteration in the value of currency must greatly affect such engagements, and must be very burdensome to landlords; but they should remember that they or their fathers benefited by the depreciation of the value of the currency. All their fixed engagements, their taxes included, were for many years paid in the depreciated medium. If they suffer injustice now, they profited by injustice at a former period; and if the account were fairly made up, it would, I believe, be found that, as far as alteration in the value of currency is concerned, they have little just cause for complaint.

But, on the score of money engagements, which are now affected by the increased value of currency, have the commercial interest no cause for complaint? Are they not debtors in as large an amount as the landed interest? How many persons have retired from business, whose capitals are, directly or indirectly, still employed by their successors? What vast sums are employed by bankers and others in discounting bills? For the whole of this value there must be debtors, and the increased value of money could not have failed very much to aggravate the pressure of their debts.

I mention these circumstances to show that if the real efficient cause of the distress of the landed gentlemen was the increased value of money, it ought to have produced similar distress in other quarters;—it has not done so, and therefore I have a right to infer, that the cause of the distress has been mistaken.

The profits of the farmer must bear some uniform proportion to the profits of the other classes of capitalists; they are subject to temporary fluctuations, perhaps, in a greater degree than the profits of others; but the circumstances of which they complain, though severe and aggravated at the present time by other causes, yet are by no means new or uncommon.

Mr Tooke, in his evidence before the Agricultural Committee, in pages 230 and 231, has furnished us with extracts from publications in the last century, in which the ruin of the landed interest was foretold in terms not very unlike those used in the present day. Those difficulties have passed, and the present ones will, with a little good legislation, soon only be matter of history.

At a late Court of proprietors of Bank Stock, the Directors said that, so far from having reduced the amount of the circulation since 1819, they had considerably increased it, and that it was this year actually more by 3,000,000*l.* than the amount of the circulation at the same period last year or the year preceding. If the Directors were quite correct in this statement, it is no answer to the charge of their having kept the circulation too low, and thereby caused the great influx of gold. My question to them is, "Was your circulation so high as to keep the exchange at par?" To this they must answer in the negative; and therefore I say, that if in consequence of the importation of gold, that metal is enhanced in value, and the pressure on the country is thereby increased, it is because the Bank did not issue a sufficient quantity of notes to keep the exchange at par. This charge is of the same force whether the amount of bank notes has, in point of fact, been stationary, increasing, or diminishing.

But I dispute the fact of the circulation having been even half a million higher in amount in 1822 than in 1821 and 1820. The mode of proving the proposition adopted by the Bank is not satisfactory; they say, in 1821 we had 23,800,000*l.* in circulation, and now the notes in circulation, with the sovereigns we have since issued, amount to 3,000,000*l.* more. But as sovereigns are circulated in Ireland, and in other districts of the United Kingdom, how can they affirm, that in the same channel in which 23,800,000*l.* bank notes circulated in 1821, 26,800,000 bank notes and sovereigns together, are now in circulation? I believe the contrary to be the fact, for I find that the amount of notes of five pounds and above, which have been in circulation for several years past, in the month of February, is as follows:—

| Years. | | £ |
|---|---|---|
| 1815 | ... | 16,394,359 |
| 1816 | ... | 15,307,228 |
| 1817 | ... | 17,538,656 |
| 1818 | ... | 19,077,951 |
| 1819 | ... | 16,148,098 |
| 1820 | ... | 15,393,770 |
| 1821 | ... | 15,766,270 |
| 1822 | ... | 15,784,770 |

And as the notes of five pounds and upwards have not increased 400,000*l.* since 1820, I find it impossible to believe that the circulation of a smaller denomination can have increased in any much larger proportion.

Before I conclude this section I must observe, that the complaints made against the Bank for refusing to lend money on discount at 4 per cent. are without any good foundation. The reason for such complaints is, that by lending at 4 per cent. they would lower the rate of interest generally, and the landed interest would be benefited by being able to raise money on mortgage on cheaper terms than they now pay for it. I believe, however, that no amount of loans which the Bank might make, and no degree of lowness of interest at which they might choose to lend, would alter the permanent rate of interest in the market. Interest is regulated chiefly by the profits that may be made by the use of capital; it cannot be controlled by any bank, nor by any assemblage of banks. During the last war the market rate of interest for money was, for years together, fluctuating between 7 and 10 per cent.; yet the Bank never lent at a rate above 5 per cent. In Ireland, the Bank, by its charter, is obliged to lend at a rate of interest not exceeding 5 per cent., yet all other persons lend at 6 per cent.

A Bank has fulfilled all its useful functions when it has substituted paper in the circulation for gold; when it has enabled us to carry on our commerce with a cheap currency, and to employ the valuable one which it supplants productively: provided it fulfils this object, it is of little importance at what rate of interest it lends its money.

One argument used by a very enlightened member of Parliament, during a late discussion on the rate of interest charged by the Bank, was rather a singular one: he said that the Bank of France, and other banks on the Continent, lent at a low rate, and therefore the Bank of England should do so. I can see no connexion between his premises and conclusion. The Bank of France ought to be governed by the market rate of interest and the rate of profits in France; the Bank of England by the market rate of interest and the rate of profit in England. One may be very different from the other. From the whole of his argument, I should infer that he considered a low rate of interest, in itself, beneficial to a country. The very contrary, I imagine, is the truth. A low rate of interest is a symptom of a great accumulation of capital; but it is also a symptom of a low rate of profits, and of an advancement to a stationary state; at which the wealth and resources of a country will not admit of increase. As all savings are made from profits, as a country is most happy when it is in a rapidly progressive state, profits and interest cannot be too high. It would be a poor consolation, indeed, to a country for low profits and low interest, that landlords were enabled to raise money on mortgage with diminished sacrifices. Nothing contributes so much to the prosperity and happiness of a country as high profits.

This complaint against the Bank, which comes, I think, with an ill grace from a member of Parliament, as representing the public interest, might be consistently urged by a Bank proprietor at a

general meeting of their body, for it is difficult to account on what principle of advantage to the concern which they manage the Directors can think it right to lend their proprietors' money at 3 per cent. to Government* when they could obtain 4 per cent. from other borrowers; but with this the public have no concern, and they and their proprietors should be left to settle this matter as they please.

---

## SECTION VI.

### On the Effects of a Low Value of Corn on the Rate of Profits.

When I use the term—a low value of corn, I wish to be clearly understood. I consider the value of corn to be low, when a large quantity is the result of a moderate quantity of labour. In proportion, as for a given quantity of labour a smaller quantity of corn is obtained, corn will rise in value. In the progress of society there are two opposite causes operating on the value of corn; one, the increase of population, and the necessity of cultivating, at an increased charge, land of an inferior quality, which always occasions a rise in the value of corn; the other, improvements in agriculture, or the discovery of new and abundant foreign markets, which always tend to lower the value. Sometimes one predominates, sometimes the other, and the value of corn rises or falls accordingly.

In speaking of the value of corn, I mean something rather different from its price—when its value rises, its price generally rises, and would always do so, if money, in which price is uniformly estimated, were invariable in value. But corn may not vary as compared with all other things—it may not be the result of either more or less labour, and yet it may rise or fall in price, because money may become more plentiful and cheap, or more scarce and dear. Nothing is of so little importance to the community collectively, as an alteration in the *price* of corn, caused by an alteration in the value of money merely; nothing of greater importance, as far as its profits and its wealth are concerned, than a rise or fall in the price of corn, when money continues of a fixed and invariable value. We will suppose money to continue at a fixed and invariable value, that we may ascertain the effects of a rise or fall in the value of corn; which, on this supposition, will be synonymous with a rise or fall in its price.

Corn being one of the chief articles on which the wages of labour are expended, its value to a great degree, regulates wages. Labour itself is subject to a fluctuation of value in the same

* The Bank are now in advance many millions to the Government on exchequer bills at 3 per cent., besides the fixed advance of their capital, also at 3 per cent., which latter they are, by their charter, obliged to lend at that rate of interest.

manner as every thing which is the subject of demand and supply, but it is also particularly affected by the price of the necessaries of the labourer; and corn, as I have already observed, is amongst the principal of those necessaries. In a former section I have endeavoured to show, that a general rise of wages will not raise the prices of commodities on which labour is expended. If wages rose in one trade, the commodity produced in that trade must rise, to place the producer of it on a par with all other trades; but when wages affect all producers alike, a rise in the value of all their commodities must, as I have on a former occasion remarked, be a matter of great indifference to them, as whether they were all at a high price or all at a low price, their relative values would be the same, and it is the alteration of their relative values only which gives to the holders of them a greater or less command of goods. Every man exchanges his goods, finally, for other goods, or for labour, and he cares little whether he sells his own goods at a high price, if he is obliged to give a high price for the goods he purchases, or sells them at a low price, if, at the same time, he can also procure the goods he wants at a low price. In either case his enjoyments are the same.

With a permanently high price of corn, caused by increased labour on the land, wages would be high; and, as commodities would not rise on account of the rise of wages, profits would necessarily fall. If goods worth 1000*l.* require at one time labour which cost 800*l.*, and at another the price of the same quantity of labour is raised to 900*l.*, profits will fall from 200*l.* to 100*l.* Profits would not fall in one trade only, but in all. High wages, when general, equally affect the profits of the farmer, the manufacturer, and the merchant. There is no other way of keeping profits up but by keeping wages down. In this view of the law of profits, it will at once be seen how important it is that so essential a necessary as corn, which so powerfully affects wages, should be at a low price; and how injurious it must be to the community generally, that, by prohibitions against importation, we should be driven to the cultivation of our poorer lands to feed our augmenting population.

Besides the impolicy of devoting a greater portion of our labour to the production of food than would otherwise be necessary, thereby diminishing the sum of our enjoyments and the power of saving, by lowering profits, we offer an irresistible temptation to capitalists to quit this country, that they may take their capitals to places where wages are low and profits high. If landlords could be sure of the prices of corn remaining steadily high, which happily they cannot be, they would have an interest opposed to every other class in the community; for a high price, proceeding from difficulty of production, is the main cause of the rise of rent: not that the rise of rent, the advantage gained by the landlord, is an equivalent for the disadvantage imposed on the other classes of the community, in being prevented from importing cheap corn we

have not that consolation: for to give a moderate advantage to one class, a most oppressive burthen must be laid on all the other classes.

This advantage to the landlords themselves would be more apparent than real; for, to complete the advantage, they should be able to calculate on steady as well as high prices. Nothing is so injurious to tenants as constantly fluctuating prices, and under a system of protection to the landlord, and prohibition against the importation of foreign corn, tenants must be exposed to the most injurious fluctuations of profits, as I shall attempt to show in the next section. When the profits of a farmer are high, he is induced to live more profusely, and to make his arrangements as if his good fortune were always to continue; but a reverse is sure to come: he has then to suffer from his former improvidence, and he finds himself entangled in expenses, which render him utterly unable to fulfil his engagements with his landlord.

The landlord's rent is, indeed, nominally high, but he is frequently in the situation of not being able to realize it; and little doubt can exist, that a more moderate and steady price of corn, with regular profits to the tenant, would afford to the landlord the best security for his happiness and comfort, if not for the receipt of the largest amount of rent.

It appears, then, that a high but steady price of corn is most advantageous to the landlord; but, as steadiness in a country situated as ours, is nearly incompatible with a price high in this country, as compared with other countries, a more moderate price is really for his interest. Nothing can be more clearly established, than that low prices of corn are for the interest of the farmer, and of every other class of society; high prices are incompatible with low wages, and high wages cannot exist with high profits.

I must here notice an error, which has been supported by one of those, whose talents give them great authority in the place where the opinion was delivered; it is, that though the manufacturer has it in his power to raise the price of his commodity when it is taxed, and even, on some occasions, to profit by its being taxed, yet the farmer cannot so indemnify himself, and that, consequently, at the end of his lease, if not before, the whole weight of the tax must fall on his landlord. This is an error of long standing, for it is supported by no less an authority than Adam Smith. The subject of rent, and the laws by which its fall and rise are regulated, have been explained since the time of Adam Smith; and all those men who are acquainted with this explanation, are incapable of falling into the error. I am not now going into the question of rent; that subject has been well elucidated by several able writers. But I would ask those who still adhere to Adam Smith's doctrine, on whom the tax on land could fall when it was equal to 3s. per acre, if the land cultivated were of the description mentioned by Mr Harvey in his evidence, and to which I have already referred

land for which 1s. 6d. only is paid as rent? The farmer must either get lower profits than other farmers who pay higher rents, or he must be able to transfer this charge to the consumer. But why should he remain in an occupation in which his profits are below the profits of all other capitalists in the community? He might require time to remove himself from an unprofitable employment; but he would not perseveringly continue in it, more than any other person similarly circumstanced in other occupations.

I have taken the instance mentioned by Mr Harvey, because, as he is a practical man, weight will be given to his information; but I am myself fully persuaded that a large quantity of corn is raised in every country, for the privilege of raising which, no rent whatever is paid. Every farmer is at liberty to employ an additional portion of capital on his land after all that which is necessary for affording his rent, has already been employed. The corn raised with this capital, can only afford the usual profits if no rent is paid out of it. Impose a tax on producing it, without admitting a compensation by a rise of price, and that moment you offer an inducement to the withdrawing of that portion of capital from the land, thereby diminishing the supply. No point is more satisfactorily established in my opinion, than that every tax imposed on the production of raw produce falls ultimately on the consumer, in the same way as taxes on the production of manufactured commodities fall on the consumers of those articles.

---

## SECTION VII.

Under a System of Protecting Duties established with a view to give the Monopoly of the Home Market to the Home Grower of Corn, Prices cannot be otherwise than fluctuating.

Protecting duties on the importation of corn must always be imposed on the supposition that corn is cheaper in foreign countries, by the amount of such duties; and that if they were not imposed, foreign corn would be imported. If foreign corn were not cheaper, no protecting duty would be necessary, for, under a system of free trade, it would not be imported. To the amount, then, of the protecting duty, the ordinary and average price of corn must be supposed to be higher in the country imposing it than in others, and when abundant harvests occur, before any corn can be exported from a country so circumstanced, corn must fall from its usual and average price, not only by the amount of the duty, but also by the further amount of the expenses of exporting the corn. Under a system of free trade, the price of corn in two countries could not materially differ more than the expenses attending the exportation of it from one country to the other; and therefore, if an abundant harvest occurred in either, and was not common to both, after an

inconsiderable fall of price, a vent for the superfluous produce would be immediately found in exportation. But under a system of protecting duties, or of prohibitory laws, the fall in the price of corn from an abundant crop, or from a succession of abundant crops, must be ruinous to the grower, before he can relieve himself by exportation. If we could listen to Mr Webb Hall's recommendation of a fixed duty of 40s. on the importation of foreign corn; and if he be right in supposing that 40s. is the difference of the natural price of corn in England and in the corn countries, on every occasion of abundant harvests, corn must actually fall 40s., before it can be the interest of any party to export it to the Continent; a fall so great that, if the farmers were subjected to it, they would be totally unable to pay their rents in abundant seasons, without a great sacrifice of capital.

The same observation is applicable to the present corn law, which prohibits importation till the price rises to 80s. The effect of this law is to make the price of corn in this country habitually and considerably above the price in other countries; and, therefore, on occasion of abundant crops, it must fall below the price of those other countries, before any relief can be afforded to the grower by exportation. Its effect, indeed, in this view, is precisely the same as that of the high fixed duty which we have been already considering.

But the present law has another capital defect, from which the system of fixed duties is free. When the average price of wheat reaches 80s. per quarter, the ports are now open for three months, for an unlimited importation of foreign wheat, duty free. With prices somewhat about 40s. per quarter on the Continent, in average years, the temptation to import into this country, during the three months that the ports are open, must operate to the introduction of an enormous quantity.

During these three months, and for a very considerable time afterwards, for the effect cannot cease with the shutting of the ports, the home grower and the foreign grower are placed in a state of free competition, to the ruin of the former. By prohibitory duties he is encouraged to employ his capital on the poorer lands of this country, which require a great expense for a small produce; and when he has an unusually short crop, and most stands in need of a high price, he is all at once exposed to the free competition of the grower of corn on the Continent, to whom a price of 40s. would be amply sufficient to compensate him for the whole cost of production. A system of fixed duties protects the farmer against this particular danger, but it leaves him exposed, in the same degree as on the present system, to all the evils which arise from abundant crops, and which can never fail to accompany every plan of a corn law, which shall elevate the price of corn in the country in which they prevail, considerably above the level of the prices of other countries.

It must not be supposed, however, that to obviate this difficulty, the importation of corn should be at all times allowed without the payment of any duty whatever; that is not, under our circumstances, the course which I should recommend. I have already shown in Section III., that with a view to the real interest of the consumer, in which the interests of the whole community are, and ever must be, included, whenever any peculiar tax falls on the produce of any one commodity, from the effects of which all other producers are exempted, a countervailing duty to that amount, but no more, should on every just principle be imposed on the importation of such commodity; and, further, that a drawback should be allowed, to the same amount also on the exportation of the like commodity. If, before any taxation, the remunerating price of wheat was 60s. per quarter, both in England and on the Continent, and in consequence of the imposition of a tax, such as tithes, falling exclusively on the farmer, and not on any other producer, wheat was raised in England to 70s., a duty of 10s. should be also imposed on the importation of foreign corn. This tax on foreign corn, and on home corn also, should be drawn back on exportation. However large the aggregate amount might be of the drawback given to the exporter, it would only be returning to him a tax which he had before paid, and which he must have to place him in a fair state of competition in the foreign markets, not only with the foreign producer, but with his own countrymen who are producing other commodities. It is essentially different from a bounty on exportation, in the sense that the word bounty is usually understood; for by a bounty is generally meant a tax levied on the people for the purpose of rendering corn unnaturally cheap to the foreign consumer, whereas, what I propose, is to sell our corn at the price at which we can really afford to produce it, and not to add to its price a tax which shall induce the foreigner rather to purchase it from some other country, and deprive us of a trade, which, under a system of free competition, we might have selected.

The duty which I have here proposed is the only legitimate countervailing duty, which neither offers inducements to capital to quit a trade, in which for us it is the most beneficially employed, nor holds out any temptations to employ an undue proportion of capital in a trade to which it would not otherwise have been destined. The course of trade would be left precisely on the same footing as if we were wholly an untaxed country, and every person was at liberty to employ his capital and skill in the way he should think most beneficial to himself. We cannot now help living under a system of heavy taxation, but to make our industry as productive to us as possible, we should offer no temptations to capitalists, to employ their funds and their skill in any other way than they would have employed them if we had had the good fortune to be untaxed, and had been permitted to give the greatest development to our talents and industry.

The Report of the Committee on Agricultural Distress in 1821, contains some excellent statements and reasonings on this subject. To that important document I can with confidence refer, in support of the principles which I am endeavouring to lay down on the impolicy of protecting corn laws. The arguments in it in favour of freedom of trade appear to me unanswerable; but it must be confessed, that in that same Report, recommendations are made utterly inconsistent with those principles.

After condemning restrictions on trade, it recommends measures of permanent restriction; after showing the evils resulting from prematurely taking poor lands into cultivation, it countenances a system which, at all sacrifices, is to keep them in tillage. In principle, nothing so odious as monopoly and restriction; in practice, nothing so salutary and desirable.

The Committee on Agriculture this year avoid taking any notice of the sound doctrines entertained by the last Committee, but have founded their whole Report on the erroneous ones; and conclude their recommendations to the House in the following words:—"If the circumstances of this country should hereafter allow the trade in corn to be permanently settled upon a footing constantly open to all the world, *but subject to such a fixed and uniform duty as might compensate to the British grower the difference of expense at which his corn can be raised and brought to market, together with the fair rate of profit upon the capital employed, compared with the expense of production, and other charges attending corn grown and imported from abroad, such a* system would, in many respects, be preferable to any modification of regulations depending upon average prices, with an ascending and descending scale of duties; because it would prevent the effects of combination and speculation, in endeavouring to raise or depress those averages, and render immaterial those inaccuracies which, from management or negligence, have occasionally produced, and may again produce such mischievous effects upon our market; but your Committee rather look forward to such a system as fit to be kept in view for the ultimate tendency of our law, than as practicable within any short or definite period."

The system which we are to keep in view for the ultimate tendency of our law, we are told, is one of a fixed duty; but on what principle is the fixed duty to be calculated? not on that which I have endeavoured to show is the only sound one, namely, that the duty should accurately countervail the peculiar burthens to which the grower of corn is subject, but a fixed duty which should compensate to the British grower the difference of expense at which his corn can be raised and brought to market, compared with the expense of production, and other charges attending corn grown and imported from abroad. Instead of holding out any hope to the consumer that we shall at any future time legislate on a principle which shall enable him to purchase corn at as cheap a price as British industry shall be enabled to obtain it for him,—instead of

giving any security to the British capitalist that wages shall not be unnaturally raised in this country, by obliging the labourer to purchase corn at a dear, and not at a cheap rate—a security so essential to the keeping up the rate of profits,—instead of bidding the farmer look forward to a time when he will be spared from the fluctuations in the price of the commodity which he raises, and which are so destructive to his interests, we are told that the present mode in which the price of corn is kept in this country habitually and considerably above its price in other countries, is not, perhaps, the best mode of effecting that object, as it may be more conveniently done by means of a fixed duty instead of a varying duty; but, at any rate, corn is to be rendered habitually and considerably dearer in this country than in others. A duty calculated upon the principle of the Committee cannot fail to perpetuate a difference of price between this and other countries, equal to the difference of expense of growing corn in this country beyond the expense of growing it in others. If we had not already pushed the endeavour of providing food for ourselves too far,—if we had not, by our own acts, made the expense of growing corn in this country greater than in others, such a law would be nugatory, because no difference of expense would exist. Is it not, then, in the highest degree absurd first to pass a law, under the operation of which the necessity is created of cultivating poor lands, and then, having so cultivated them at a great expense, make that additional expense the ground for refusing ever to purchase corn from those who can afford to produce it at a cheaper price? I can produce a quantity of cloth which affords me a remunerating price at 60*l.*, which I can sell to a foreign country, if I will lay out the proceeds in the purchase of thirty quarters of wheat at 2*l.* per quarter; but I am refused permission to do so, and am obliged, by the operation of a law, to employ the capital which yielded me 60*l.* in cloth, in raising fifteen quarters of wheat at 4*l.* per quarter.

The exchange of the cloth for wheat,—the production of the cloth is wholly prevented by the countervailing duty of 2*l.* per quarter on the importation of wheat, which obliges me to raise the corn, and prevents me from employing my capital in the making of cloth for the purpose of exchanging it for wheat.

It is true, indeed, that in both cases I raise a commodity worth 60*l.*, and to those who look only at money, and not money's worth, either of these employments of my capital appears equally productive; but a moment's reflection will convince us that there is the greatest difference imaginable between obtaining (with the same quantity of labour, mind) thirty quarters of wheat, and fifteen quarters, although either should, under the circumstances supposed, be worth 60*l.*

If the principle recommended by the Committee were consistently followed, there is no commodity whatever which we can raise at home which we should ever import from abroad; we should cul-

tivate beet-root, and make our own sugar, and impose a duty on the importation of sugar equal to the difference of expense of growing sugar here, and growing it in the East or West Indies. We should erect hot-houses, and raise our own grapes for the purpose of making wine, and protect the maker of wine by the same course of policy. Either the doctrine is untenable in the case of corn, or it is to be justified in all other cases. Does the purchaser of a commodity ever inquire concerning the terms on which the producer can afford to raise or make it? His only consideration is the price at which he can purchase it. When he knows that, he knows the cheapest mode of obtaining it; if he can himself produce it cheaper than he can purchase it, he will devote himself to its production rather than to the production of the commodity with which he, in fact, must otherwise purchase it.

But there are persons, and of the number of those, too, who are considered of authority on these matters, who say this reasoning would be correct if we were about to employ capital on the land with a view to obtain more corn; that then it would undoubtedly be wise to consider whether we could purchase it from abroad cheaper than we could grow it at home, and govern our proceedings accordingly; but that, when capital has been expended on the land, it is quite another question, since much of that capital would be lost, if we then resolved rather to import cheap corn from abroad than grow it at a dear price at home. That some capital would be lost cannot be disputed, but is the possession or preservation of capital the end, or the means? The means, undoubtedly. What we want is an abundance of commodities, and if it could be proved that, by the sacrifice of a part of our capital, we should augment the annual produce of those objects which contribute to our enjoyment and happiness, we ought not, I should think, to repine at the loss of a part of our capital.

Mr Leslie has invented an ingenious apparatus, by the use of which we might fill our ice-houses with ice. Suppose a capital of half a million were expended on these machines, would it not nevertheless, be wise in us to get our ice, without any expense, from the frozen ponds in our neighbourhoods, rather than employ the labour, and waste the acid or other ingredients in the manufacture of ice, although, by so doing, we should for ever sacrifice the 500,000*l.* which we had expended on air-pumps?

In this recommendation, which must have the effect of perpetuating the difference between the price of corn here and its price in other countries, we should naturally conclude that the Committee did not admit the evils which from time to time must thence inevitably arise in this country. Quite the contrary; they admit them to the fullest extent, and they refer to the statements made on that subject in a former report, for the purpose of expressing their approbation of the reasoning which is founded on them.

They say, "The excessive inconvenience and impolicy of our present system have been so fully treated and so satisfactorily exposed in the report already alluded to (pp. 10 and 12,) that it is unnecessary to do more than to refer to it, adding only, that every thing which has happened subsequent to the presentation of that report, as well as all our experience since 1815, has more and more tended to demonstrate how little reliance can be placed upon a regulation which contains an absolute prohibition up to a certain price, and an unlimited competition beyond that price; which, so far from affording steadiness to our market, *may at one time reduce prices, already too low, still lower than they might have been even under a free trade;* and at another, unnecessarily enhance the prices already too high, which tends to aggravate the evils of scarcity, *and render more severe the depression of profits from abundance.*"

Here the two evils of our corn law are very fairly stated; and against one of them, that of unlimited competition beyond the price of 80s., a remedy, though by no means the best which might have been temporarily established, is recommended; but, instead of suggesting any means of alleviating or remedying the other evil, proceeding from abundance, which is so fully acknowledged, measures are recommended for immediate and temporary adoption; and others are suggested as desirable to be at a future time permanently adopted, which cannot fail to perpetuate this evil, because they cannot fail to make the price of corn constantly and considerably higher in this than in any other neighbouring country.

One of the grounds advanced for high duties on the importation of corn is, that the manufacturer is protected by high duties against the competition of the foreign manufacturer, and that the cultivator of the soil should have a similar protection against the foreign grower of corn. To this it is impossible to give an answer in language more satisfactory than has been done by Lord Grenville.

"If the measures which had formerly been adopted for the protection of trade and manufactures were right, let them be continued; if wrong, let them be abrogated; not suddenly, but with that caution with which all policy, however erroneous, so engrafted into our usage by time, should be changed; but let it be consecrated as a principle of legislation, that in no case should the grounds for advising the Legislature to afford any particular protection, rest on the protection which might have been afforded in any other quarter. In fact, he could not well conceive how the noble earl could argue, that measures which he admitted to have been wrong with respect to manufactures, would nevertheless be right with respect to agriculture.

"It would be an extraordinary mode of doing justice, thus to declare that, because a large, the largest, part of the community were already oppressed by favours shown to one particular class, they should be still farther oppressed by favours shown to another particular class."—*Speech*, March 15, 1815.

If any thing more is required against this pretension of protection for the land, it is furnished in the following passage of the Report of the Agricultural Committee of last year:—

"They (the Committee) observe, that one of the witnesses, in order to illustrate his ideas and the wishes of the petitioners, has furnished a table of the duties payable on foreign manufactured articles, of which several are subject to duties of excise in this country; and upon which the importation duty, as, for instance, upon the article of glass, is imposed in a great measure to countervail the duty upon that article manufactured in this kingdom.

"But the main ground upon which your Committee are disposed to think that the House will look with some mistrust to the soundness of this principle, is—first, that it may be well doubted whether (with the exception of silk) any of our considerable manufactures derive benefit from this assumed protection in the markets of this country: for how could the foreign manufactures of cotton, of woollens, of hardware, compete with our own in this country, when it is notorious that we can afford to undersell them in the products of those great branches of our manufacturing industry, even in their own markets, notwithstanding that cotton and wool are subject to a direct duty on importation, not drawn back upon their export in a manufactured state, as well as to all the indirect taxation, which affects capital in these branches, in common with that capital which is employed in raising the productions of the soil?"

This is followed by other passages which are excellent, and all tend to show, that the protection which manufactures are said to possess, is not really afforded them; though, if it were, Lord Grenville's argument is conclusive against that being a ground for extending protection to agriculture.

It is to be hoped that we shall, even in the present session of Parliament, get rid of many of these injurious laws; a better spirit of legislation appears likely to prevail in the present day; and that absurd jealousy which influenced our forefathers, will give way to the pleasing conviction, that we can never, by freedom of commerce, promote the welfare of other countries without also promoting our own.

The passage from the Report is useful in another respect: it shows us that the writer of it understood well what a countervailing duty is, and should be; for he states that the duty on the importation of glass "is imposed in a great measure to countervail the duty upon that article manufactured in this kingdom." How is this passage to be reconciled with the recommendation in both Reports, that, in imposing a duty on the importation of corn, "it should be calculated fairly to countervail the difference of expense, including the ordinary rate of profit, at which corn, in the present state of this country, *can be grown and brought to market* within the United Kingdom, compared with the expense, including also the ordinary rate of profit, of producing it in any of those countries

from whence our principal supplies of foreign corn have usually been drawn, joined to the ordinary charge of conveying it from thence to our markets?"

---

## SECTION VIII.

On the Project of advancing Money on Loan, to Speculators in Corn, at a low Interest.

It is allowed by the Report, that "the universal rule of allowing all articles, as much as possible, to find their own natural level, by leaving the supply to adjust itself to the demand," discouraged the Committee from recommending that Government should employ money, in making purchases of corn, with a view to sell it when the price rose; but the Committee do not appear to have seen that the same universal rule, of which they speak with approbation, ought to have discouraged them also from recommending that Government should advance money, at a low rate of interest, to persons who should purchase wheat, to deposit it in the King's warehouses, while it was under 60s. per quarter.

Will not such an advance of money at a low rate of interest, and for twelve months certain, if the parties desire it, prevent the article from "finding its own level," and "will the supply be left to adjust itself to the demand?"

If the cause of the low price of corn be owing to an abundant quantity in the country, and not to an abundant quantity hurried prematurely to market by the distress of the farmers, the proposed remedy will be really mischievous, as in that case we must go through the ordeal of low prices, and increased consumption, which is always in a degree consequent on low price, before the supply will adjust itself to the demand, and prices become again remuner ative. By the encouragement thus given to storing corn for a twelvemonth, the period of glut may be retarded, but it must come at last. On the other supposition, that from alarm or distress more than a due portion of corn is prematurely sent to market, and that before the next harvest the whole supply will, in consequence, prove deficient, and the price will rise; I must observe, that sharp-sighted individuals, prompted by a regard to their interest, can discover this, if it be so, with more certainty than Government. Money is not wanted to purchase the wheat thus unduly brought to market; nothing is required but a conviction of the probability of a diminished supply, or an increased demand, and a probable rise of price, to awaken the spirit of speculation. If there were any well-founded opinion of such a rise, we should soon witness a more than usual activity among the corn-dealers. When there was a prospect of continued wet weather, just before the harvest of last year, did we not see an immediate spring in the price of corn? On what was

such rise founded, but on an anticipation of probable scarcity, and an increased price? If, then, there be any good foundation for a probable deficiency before the wheat of the next harvest comes into use, individuals will be found to speculate without any encouragement from Government; the difference between a rate of interest of 3 per cent. and of 5 per cent. must be of little importance in such a transaction, and as far as the public is concerned may be wholly neglected, when we are considering the advantages of such a measure.

It has been said that similar advances have been made to the commercial interest on more than one occasion, why then should the agricultural interest be excluded from a similar benefit? In the first place, I doubt whether the measure be justifiable in any case whatever; but it cannot be disputed that the commercial class made their application for this indulgence under very different circumstances from the agricultural class.

The commercial class are liable to stagnation of business; a market for which they have prepared their goods may, during war (and it is only during war that such advances have been made) be shut against them. On the probability of selling their goods, they have given bills which are becoming due, and their character and fortune depend on fulfilling their engagements. All they want is time; by forbearing to produce more of the commodity for which there is a diminished demand, they are sure, though probably with great loss, to dispose of their articles. Is the situation of the farmer any thing like this? Has he any bills becoming due? Do all his future transactions depend on his momentarily sustaining his credit? Are markets ever wholly shut against him? Is it a mere supply of money to meet his bills that he requires? The cases are most widely different, and the analogy which is attempted to be set up between them fails in every particular.

---

## SECTION IX.

### Can the present State of Agricultural Distress be attributed to Taxation.

The present distress is caused by an insufficient price for the produce of the land, which it appears impossible, with any degree of fairness, to ascribe to taxation. Taxation is of two kinds, it either falls on the producer of a commodity in his character of producer, or it falls on him as a consumer. When a farmer has to pay an agricultural horse-tax, tithes, land-tax, he is taxed as a producer, and he seeks to repay himself, as all other producers do, by imposing an additional price, equivalent to the tax, on the commodity which he produces. It is the consumer, then, that finally

pays the tax, and not the producer, as nothing can prevent the latter from transferring the tax to the consumer, but the production of too great a quantity of the commodity for the demand. Whenever the price of a commodity does not repay to the producer all the charges of every description which he is obliged to incur, it fails to give him a remunerating price; it places him under a disadvantage, as compared with the producers of other commodities; he no longer gets the usual and ordinary profits of capital, and there are only two remedies by which he can be relieved: one, the diminution of the quantity of the commodity, which will not fail to raise its price, if the demand do not at the same time diminish; the other, the relieving him from the taxes which he pays as a producer. The first remedy is certain and efficacious; the second is of a more doubtful description, because, if the price of the commodity did once remunerate the producer, after the tax was imposed, it could only fall afterwards from increased supply, or diminished demand.

The repeal of the tax will not diminish quantity; and if it does not further lower the price, it will not increase demand. If the price falls still lower, then the repeal of the tax will not afford relief to the producer. It is only in the case of the commodity falling no lower, although the producer is relieved from one of the charges of production, that he can be said to be benefited by the repeal of a tax on production; and a very reasonable doubt may be entertained, whether the competition of the sellers may not further diminish the price of the commodity in consequence of the repeal of the tax. That taxes on production may be the cause of an excess of the supply above the demand, is true, when the tax is a new one, and when the consumers are unwilling to re-pay, in the additional price, the additional charge imposed on the producer. But this is not the case in this country at the present moment; the taxes are not new ones; the prices of raw produce were sufficiently high, notwithstanding the taxes, to afford a remunerating price to the producer; and no doubt can exist, that if there had been no such taxes, raw produce would have been considerably lower than it now is. The same cause which made wheat fall from 80s. to 60s., or 25 per cent., would have made it fall from 60s. to 45s., if, in consequence of fewer taxes on the land, 60s. and not 80s. had been the ordinary average price. Some of the charges of production have actually been diminished, while there is every reason to conclude, that the quantity consumed by the people has been increasing.

The alteration in the value of money has been generally supposed to be favourable to the working classes, as their money wages are said not to have fallen in proportion to the increased value of money, and the fall in the price of necessaries. Their condition is then bettered, and their power of consuming increased; but prices can never stand against a great augmentation of quantity, and therefore

there is no other rational solution of the cause of the fall of agricultural produce but abundance.

Taxes on consumers affect consumers generally, and will in no way account for the distress of a particular class, or for an insufficient price of the commodity which they grow or manufacture. The taxes on candles, soap, salt, &c., &c., are not only paid by farmers, but by all persons who consume those commodities. The repeal of those taxes would afford relief to all, and not to the agricultural class particularly.

Those who maintain, that on no reasonable grounds can it be shown, that taxation is the cause of agricultural distress and of the low price of corn, are sometimes represented as maintaining that a repeal of taxes will afford no relief; such a conclusion shows a want of candour or of intelligence, for it is perfectly consistent to maintain, that taxation is not the cause of some particular distress, and at the same time insist that a repeal of taxes would afford relief. When Lord John Russell's horse falls because he trips over a stone, and is enabled to get up again when relieved from the burthen of his harness, it would surely be incorrect to say that the horse fell because he was burthened with harness; though it would be right to assert that the tripping over the stone threw him down, while the relief from the confinement of the harness enabled him to get up again.

For my own part, then, being of opinion that almost all taxes on production fall finally on the consumer, I think that no repeal of taxes could take place which would have any other effect than to relieve consumers generally of a part of the burthens which they now bear. Although I am at all times a friend to the most rigid economy in the public expenditure, yet I am also convinced, that there are causes of distress, to the producers of a particular commodity, arising from abundant quantity, from which no practicable repeal of taxes could materially relieve, particularly if the commodity be agricultural produce, and if its ordinary price be kept above the level of the prices of other countries by restrictions on importation.

Against such distress no country, and more particularly no country having a bad system of corn laws, is exempted. If we were absolutely without any taxes whatever; if the public expenditure was the most economical possible, and was supported by a revenue drawn from lands appropriated for that purpose; if we had no national debt, no sinking fund, we yet should be exposed to a destructive fall of price from occasional abundance. It is impossible to read Mr Tooke's able evidence before the Agricultural Committee of 1821, without being struck with the surprising effects which an excess of supply produces on price, and for which there is, in fact, no effectual remedy but a reduction of quantity. If there be any other remedy, why do not those who complain of the distress, and who have been in situations so favourable to make themselves

heard, state it? With the exception of a reduction of taxation, new and additional protection against the competition of foreigners for every description of agricultural produce, direct purchases to be made by Government, or encouragements to others to make them, I have heard no remedies suggested: and as to the efficacy of these remedies, I must leave that to the reader's judgment; my own opinion of them having been already most decidedly expressed.

On the causes which have produced the degree of abundance to which I attribute all that part of the fall of raw produce since 1819, which cannot fairly be ascribed to the alteration in the value of the currency,* it will not be necessary for me to say much; we are, I think, justified in ascribing it to a succession of good crops, to an increasing importation from Ireland, and to the increase of tillage which the high prices and the obstacles opposed to importation during the war occasioned. Many of the gentlemen who gave evidence before the Committee concurred in describing the harvests of 1819 and 1820 as unusually abundant. Mr Wakefield said on the 5th April 1821, "I think there is a wonderful quantity of corn in the country; I now think that there is as much corn left in the country, as generally, in common years, there is after harvest." "I think, that if you were to have for the next two or three years, fair average crops, it would leave you with a great stock in hand."

Mr Iveson.—"I think the last crop was abundant; the crop of 1820 was considerably beyond an average."—P. 338.

Mr J. Brodie.—"The crop in Scotland was very abundant last year."

"The crop of the year before was above an average crop too."—P. 327.

Besides this abundant crop at home, the importations from Ireland were unusually great, as will be seen by the following account of the importation of oats, wheat, and wheat-flour, the production of Ireland, imported into Great Britain, which was laid before the Agricultural Committee of 1821.

| Years ending 5th Jan. | Oats—Qrs. | Wheat—Qrs. | Wheat flour—Cwt. |
|---|---|---|---|
| 5th Jan. 1818 | 594,337 | 50,842 | 16,238 |
| ... 1819 | 1,001,247 | 95,677 | 33,258 |
| ... 1820 | 759,608 | 127,308 | 92,893 |
| ... 1821 | 892,605 | 351,871 | 180,375 |
| For three months. From 5th Jan. 1821 to 5th April 1821 | 437,245 | 218,764 | 99,062 |

It will be seen by the above account how greatly the importation from Ireland has increased, which, coming in addition to the abundant quantity yielded by the harvests of 1819 and 1820, will, I think, sufficiently account for the depression of price.

* To that cause it will have been seen I ascribe a fall of 10 per cent.

To trace this abundance to its source is not, however, necessary in this case; it is sufficient to show that the low price cannot have arisen from any other cause but an increased supply, or a diminished demand, to be convinced that the evil admits of no other effectual remedy but a reduction of quantity, or an increased demand.

That an abundant quantity has been exposed to sale will be shown by the account of the sales in Mark Lane.* It will be found, too, that an unusually large quantity has arrived in the port of London from ports in Great Britain and Ireland.

It must, indeed, not be forgotten that the fall of price is attributed to the abundant quantity actually in the market, and the reasoning founded on the doctrine of abundance being the cause of low price would in no degree be invalidated if, before the next harvest, our supply should be found to be below the demand, and there should be a great increase of price. We can have no unequivocal proof of abundance but by its effects. I believe in the existence of an abundant quantity, but I should not think my argument in the least weakened if corn should, before next harvest, rise to 80s. per quarter.

---

## CONCLUSION.

HAVING disposed of most of the subjects which are intimately connected with the question of the policy which it would be wise for this country to adopt, respecting the trade in corn, I shall briefly recapitulate the opinions which will be found more at large in various parts of this inquiry.

The cause of the present low price of agricultural produce is partly the alteration in the value of the currency, and mainly, an excess of supply above the demand. To Mr Peel's bill, even in conjunction with the operation of the Bank, no greater effect on the price of corn can, with any fairness, be attributed than 10 per cent., and to that amount the far greatest part of the taxation of the country has been increased; but this increased taxation does not fall on the landed interest only; it falls equally on the funded interest, and every other interest in the country. Suppose the land to pay one half of the whole taxation of the country, after deducting that part of the expenditure which depends on the value of money, and which would therefore be augmented in proportion as money fell in value, the whole increase of taxation which, since 1819, has fallen upon the landed interest, taking tenants and landlords together, cannot have exceeded 2 millions; but, suppose it

* See Appendix B.

4 millions per annum,* is 4 millions per annum the amount of the whole loss sustained by landlords and tenants together by the fall in the price of agricultural produce? Impossible; because, by the allegations of the landed interest, all rent is now paid from capital, leaving nothing for profit; and, therefore, if the only cause of distress be the alteration in the value of the currency, 4 millions must have constituted all the net income both of landlords and tenants before such alteration—a proposition which no man would venture to sustain. To what other cause, then, is the distress to be attributed? To what other cause are we to ascribe the extreme depression of all agricultural produce? The answer is, I think, plain, intelligible, and satisfactory;—to the general prevalence of abundance, arising from good crops, and large importations from Ireland.

This fall has been increased by the operation of the present corn laws, which have had the effect of driving capital to the cultivation of poor lands, and of making the price of corn in average years in this country greatly to exceed the price in other countries. The price, under such circumstances, must be high, but in proportion as it is raised, so is it liable to a greater fall; for, in abundant seasons, the whole increased quantity gluts our own market, and if it be above the quantity which we can consume, rapidly depresses the price, without our having any vent from exportation, till the fall of price is ruinous to the interests of farmers, who are never so secure as when the resource of exportation can be easily had recourse to.

To obviate, as far as is practicable, this enormous evil, all undue protection to agriculture should be gradually withdrawn. The policy which we ought at this moment of distress to adopt, is to give the monopoly of the home market to the British grower till corn reaches 70s. per quarter. When it has reached 70s., all fixed price and system of averages should be got rid of, and a duty of 20s. per quarter on the importation of wheat, and other grain in proportion, might be imposed.

This change would do but little in protecting us from the effects of abundant crops, but it would be greatly beneficial in preventing an unlimited importation of corn when the ports were opened. Under the payment of a fixed duty, corn would be imported only in such quantities as it might be required, and as no one would fear the shutting of the ports, no one would hurry corn to this country till we really wanted it. Against the effects of glut, caused by an unlimited supply from abroad, we should be then amply protected.

* The whole amount of taxes paid to the public creditor and sinking fund, is 36 millions; suppose the other fixed charges to be 4 millions, then the whole taxation on which the altered value of money has operated, is 40 millions. I estimate the increase 10 per cent., or 4 millions, which falls on all classes—landlords, merchants, manufacturers, labourers, and, though last not least, stockholders.

This measure, however, although a great improvement on the present corn law, would be very deficient if we proceeded no farther. To establish measures which should at once drive capital from the land would, under the present circumstances of the country, be rash and hazardous, and, therefore, I should propose that the duty of 20s. should every year be reduced 1s. until it reached 10s. We should also allow a drawback of 7s. per quarter on the exportation of wheat; and these should be considered as permanent measures.

A duty of 10s. per quarter on importation, to which I wish to approach, is, I am sure, rather too high as a countervailing duty for the peculiar taxes which are imposed on the corn grower, over and above those which are imposed on the other classes of producers in the country; but I would rather err on the side of a liberal allowance than of a scanty one, and it is for this reason that I do not propose to allow a drawback quite equal to the duty. As far as the producer of corn was concerned, when the duty had fallen to 10s., the trade would to him have all the advantages of a free trade, within the trifling amount of 3s. per quarter. Whenever his crops were abundant, he could be relieved by exportation, after a very moderate fall of price, unless, indeed, the abundance and fall were general in all countries; but, at any rate, the price of his corn would be nearer the general rate of prices of the rest of the world by 20s. or 25s. than it is under the existing regulations, and this alteration would be invaluable to him.

Before I conclude, it will be proper to notice an objection which is frequently made against freedom of trade in corn, viz. the dependence in which it would place us for an essential article of subsistence on foreign countries. This objection is founded on the supposition that we should be importers of a considerable portion of the quantity which we annually consume.

In the first place, I differ with those who think that the quantity which we should import would be immense; and, in the second, if it were as large as the objection requires, I can see no danger as likely to arise from it.

From all the evidence given to the Agricultural Committee, it appears that no very great quantity could be obtained from abroad, without causing a considerable increase in the remunerating price of corn in foreign countries. In proportion as the quantity required came from the interior of Poland and Germany, the cost would be greatly increased by the expenses of land carriage. To raise a larger supply, too, those countries would be obliged to have recourse to an inferior quality of land, and, as it is the cost of raising corn on the worst soils in cultivation, requiring the heaviest charges, which regulates the price of all the corn of a country, there could not be a great additional quantity produced without a rise in the price necessary to remunerate the foreign grower. In proportion as the price rose abroad, it would become advantageous to cultivate

poorer lands at home; and therefore, here is every probability that, under the freest state of demand, we should not be importers of any very large quantity.

But suppose the case to be otherwise, what danger should we incur from our dependence, as it is called, on foreign countries for a considerable portion of our food? If our demand was constant and uniform, which, under such a system, it would undoubtedly be, a considerable quantity of corn must be grown abroad expressly for our market. It would be more the interest, if possible, of the countries so growing corn for our use, to oppose no obstacles to its reaching us, than it would be ours to receive it.

Let us look attentively at what is passing in this country before our eyes. Do we not see the effects of a small excess of quantity on the price of corn? What would be the glut if England habitually raised a considerable additional quantity for foreign consumption? Should we be willing to expose our farmers and landlords to the ruin which would overwhelm them if we voluntarily deprived them of the foreign market, even in case of war? I am sure we should not. Whatever allowance we may make for the feelings of enmity, and for the desire which we might have to inflict suffering on our foe by depriving him of part of his usual supply of food, I am sure that at such a price as it must be inflicted, in the case which I am supposing, we should forbear to exercise such a power. If such would be our policy, so would it also be that of other countries in the same circumstances; and I am fully persuaded that we should never suffer from being deprived of the quantity of food for which we uniformly depended on importation.

All our reasoning on this subject leads to the same conclusion, that we should, with as little delay as possible, consistently with a due regard to temporary interests, establish what may be called a substantially free trade in corn. The interests of the farmer, consumer, and capitalist, would all be promoted by such a measure; and, as far as steady prices and the regular receipt of rents is more advantageous to the landlord than fluctuating prices and irregular receipt of rents, I am sure his interest well understood would lead to the same conclusion; although I am willing to admit, that the average money rents, to which he would be entitled if his tenants could fulfil their contracts, would be higher under a system of restricted trade.

# APPENDIX.

## A.

REPRESENTATION, AGREED UPON THE 20TH DAY OF MAY 1819, BY THE DIRECTORS OF THE BANK OF ENGLAND, AND LAID BEFORE THE CHANCELLOR OF THE EXCHEQUER.

Ordered by the House of Commons to be Printed, 21st May 1819.

*At a Court of Directors at the Bank, on Thursday, 20th May* 1819.

THE DIRECTORS of the Bank of *England*, having taken into their most serious consideration the Reports of the Secret Committees of the two Houses of Parliament, appointed to inquire into the state of the Bank of England with reference to the expediency of the resumption of cash payments at the period now fixed, have thought it their duty to lay before His Majesty's Ministers, as early as possible, their sentiments with regard to the measures suggested by these Committees, for the approbation of Parliament.

In the *first* place, it appears that, in the view of the Committees, the measure of the Bank recommencing cash payments on the 5th of July next, the time prescribed by the existing law, "is utterly impracticable, and would be entirely inefficient, if not ruinous."

*Secondly*, It appears that the two Committees have come to their conclusion at a period when the outstanding notes of the Bank of England do not much exceed 25,000,000*l.*; when the price of gold is about 4*l.* 1s. per ounce; and when there is great distress from the stagnation of commerce, and the fall of prices of imported articles.

It must be obvious to His Majesty's Ministers, that as long as such a state of things shall last, or one in any degree similar, without either considerable improvement on one side, or growing worse on the other, the Bank, acting as it does at present, and keeping its issues nearly at the present level, could not venture to return to cash payments with any probability of benefit to the public, or safety to the establishment.

The two Committees of Parliament, apparently actuated by this consideration, have advised that the Bank shall not open payments in coin for a period of four years, but shall be obliged, from the 1st of May 1821, to discharge their notes in standard gold bullion, at Mint price, when demanded in sums not amounting to less than thirty ounces. And, as it appears to the Committees expedient that this return to payments at Mint price should be made gradually, they propose that, on the first day of February next, the Bank should pay their notes in bullion, if demanded in sums not less than sixty ounces, at the rate of 4*l.* 1s. an ounce, and from the 1st of October 1820 to the 1st of May following, at 3*l.* 19s. 6d. an ounce.

If the Directors of the Bank have a true comprehension of the views of the Committees in submitting this scheme to Parliament, they are obliged to infer, that the object of the Committees is, to secure, at every hazard, and under every possible variation of circumstances, the return of payments in gold, at Mint price, for bank notes,

at the expiration of two years; and that this measure is so to be managed, that the Mint price denominations shall ever afterwards be preserved, leaving the market or exchange price of gold to be controlled by the Bank, solely by the amount of their issue of notes.

It further appears to the Directors, with regard to the final execution of this plan, and the payment of bank notes in gold at Mint price, that discretionary power is to be taken away from the Bank; and that it is merely to regulate its issues, and make purchases of gold, so as to be enabled to answer all possible demands, whenever its treasury shall be again open for the payment of its notes.

Under these impressions, the Directors of the Bank think it right to observe to His Majesty's Ministers, that being engaged to pay on demand their notes in statutable coin, at the Mint price of 3*l.* 17s. 10½d. an ounce, they ought to be the last persons who should object to any measure calculated to effect that end; but as it is incumbent on them to consider the effect of any measure to be adopted, as operating upon the general issue of their notes, by which all the private banks are regulated, and of which the whole currency, exclusive of the notes of private bankers, is composed, they feel themselves obliged, by the new situation in which they have been placed by the restriction act of 1797, to bear in mind not less their duties to the community at large, whose interests, in a pecuniary and commercial relation, have in a great degree been confided to their discretion.

The Directors being thus obliged to extend their views, and embrace the interests of the whole community in their consideration of this measure, cannot but feel a repugnance, however involuntary, to pledge themselves in approbation of a system which, in their opinion, in all its great tendencies and operations, concerns the country in general more than the immediate interests of the Bank alone.

It is not certainly a part of the regular duty of the Bank, under its original institution, to enter into the general views of policy by which this great empire is to be governed in all its commercial and pecuniary transactions, which exclusively belong to the administration, to Parliament, and to the community at large; nor is it the province of the Bank to expound the principles by which these views ought to be regulated. Its peculiar and appropriate duty is the management of the concerns of the banking establishment, as connected with the payment of the interest of the national debt, the lodgments consigned to its care, and the ordinary advances it has been accustomed to make to Government.

But when the Directors are now to be called upon, in the new situation in which they are placed by the restriction act, to procure a fund for supporting the whole national currency, either in bullion or in coin, and when it is proposed that they should effect this measure within a given period, by regulating the market price of gold by a limitation of the amount of the issue of bank notes, with whatever distress such limitation may be attended to individuals or the community at large, they feel it their bounden and imperious duty to state their sentiments thus explicitly, in the first instance to his Majesty's Ministers, on this subject, that a tacit consent and concurrence at this juncture may not, at some future period, be construed into a previous implied sanction on their part, of a system which they cannot but consider fraught with very great uncertainty and risk.

It is impossible for them to decide beforehand what shall be the course of events for the next two, much less for the next four, years; they have no right to hazard a flattering conjecture, for which they have not real grounds, in which they may be disappointed, and for which they may be considered responsible. They cannot venture to advise an unrelenting continuance of pecuniary pressures upon the commercial world, of which it is impossible for them either to foresee or estimate the consequences.

The Directors have already submitted to the House of Lords the expediency of the Bank paying its notes in bullion at the market price of the day, with a view of seeing how far favourable commercial balances may operate in restoring the former order of things, of which they might take advantage: and, with a similar view, they have proposed that Government should repay the Bank a considerable part of the sums that have been advanced upon exchequer bills.

These two measures would allow time for a correct judgment to be formed upon the state of the bullion market, and upon the real result of those changes which the late war may have produced in all its consequences, of increased public debt, increased taxes, increased prices, and altered relations as to interest, capital, and commercial dealings with the Continent: and how far the alterations thus produced are temporary or permanent; and to what extent, and in what degree, they operate.

It was the design of the Directors, in pursuance of the before-mentioned two measures, to take advantage of every circumstance which could enable the Bank to extend its purchases of bullion, as far as a legitimate consideration of the ordinary wants of the nation for a sufficient currency could possibly warrant. Beyond this point, they do not consider themselves justified in going, upon any opinion, conjecture, or speculation, merely their own; and when a system is recommended which seems to take away from the Bank anything like a discretionary consideration of the necessities and distresses of the commercial world, if the Directors withhold their previous consent, it is not from a want of deference to his Majesty's Government, or to the opinions of the Committees of the two Houses of Parliament, but solely from a serious feeling that they have no right whatever to invest themselves, of their own accord, with the responsibility of countenancing a measure in which the whole community is so deeply involved, and possibly to compromise the universal interests of the empire, in all the relations of agriculture, manufacture, commerce, and revenue, by a seeming acquiescence or declared approbation on the part of the Directors of the Bank of England.

The consideration of these great questions, and of the degree in which all these leading and commanding interests may be affected by the measure proposed, rests with the legislature; and it is for them, after solemn deliberation, and not for the Bank, to determine and decide upon the course to be adopted.

Whatever reflections may have from time to time been cast upon the Bank, whatever invidious representations of its conduct may have been made, the cautious conduct it adopted, in so measuring the amount of currency as to make it adequate to the wants both of the nation and of the Government, at the same time keeping it within reasonable bounds when compared with what existed before the war, as is shown in the Lords' reports, pages 10, 11, 12, and 13; the recent effort to return to a system of cash payments, which commenced with the fairest prospects (but which was afterwards frustrated by events that could not be foreseen nor controlled by the Bank), are of themselves a sufficient refutation of all the obloquy which has been so undeservedly heaped upon the establishment.

The Directors of the Bank of England, in submitting these considerations to his Majesty's Ministers, request that they may be allowed to assure them, that it is always their anxious desire, as far as depends upon them, to aid, by every consistent means, the measures of the legislature for furthering the prosperity of the empire.

ROBERT BEST, *Sec.*

## B.

CORN ARRIVED IN THE PORT OF LONDON FROM PORTS IN GREAT BRITAIN AND IRELAND.

| | 1817. No. of Quarters. | Average Price. | 1818. No. of Quarters. | Average Price. | 1819. No. of Quarters. | Average Price. | 1820. No. of Quarters. | Average Price. | 1821. No. of Quarters. | Average Price. | 1822. No. of Quarters. | Average Price. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| WHEAT. | | | | | | | | | | | | |
| 1st Quarter, ..... | 93,624 | 101s. | 78,671 | 86s. | 49,047 | 78s. | 103,589 | 65s. | 77,227 | 54s. | 133,913 | 48s. |
| 2d Do. ..... | 69,842 | 104s. | 45,541 | 88s. | 44,201 | 72s. | 103,938 | 71s. | 78,260 | 54s. | | |
| 3d Do. ..... | 77,293 | 91s. | 51,869 | 83s. | 91,741 | 74s. | 71,461 | 72s. | 107,024 | 55s. | | |
| 4th Do. ..... | 96,505 | 80s. | 60,086 | 81s. | 100,552 | 66s. | 87,680 | 60s. | 165,804 | 58s. | | |
| | 337,264 | | 236,167 | | 285,541 | | 366,668 | | 428,315 | | | |
| BARLEY. | | | | | | | | | | | | |
| 1st Quarter, ..... | 99,853 | 50s. | 87,538 | 46s. | 84,020 | 60s. | 121,063 | 34s. | 97,707 | 25s. | 99,062 | 19s 6d. |
| 2d Do. ..... | 64,054 | 51s. | 39,901 | 51s. | 15,454 | 45s. | 55,632 | 35s. | 46,943 | 24s. | | |
| 3d Do. ..... | 17,559 | 48s. | 14,731 | 54s. | 8,461 | 39s. | 10,678 | 36s. | 14,416 | 26s. | | |
| 4th Do. ..... | 93,941 | 43s. | 120,373 | 61s. | 87,196 | 37s. | 59,420 | 29s. | 71,868 | 29s. | | |
| | 275,407 | | 262,543 | | 195,131 | | 246,793 | | 230,934 | | | |
| OATS. | | | | | | | | | | | | |
| 1st Quarter, ..... | 142,721 | 30s. | 147,959 | 28s. | 110,373 | 33s. | 197,476 | 23s. | 127,351 | 19s | 199,057 | |
| 2d Do. ..... | 80,872 | 34s. | 102,204 | 31s. | 94,669 | 28s. | 188,723 | 26s. | 138,781 | 18s. | | |
| 3d Do. ..... | 89,137 | 36s. | 194,603 | 34s. | 98,841 | 27s. | 82,131 | 28s. | 149,106 | 20s. | | |
| 4th Do. ..... | 155,564 | 27s. | 88,977 | 35s. | 136,352 | 25s. | 91,100 | 22s. | 152,934 | 21s. | | |
| | 468,294 | | 533,743 | | 440,235 | | 559,430 | | 568,170 | | | |

AN ACCOUNT of the Number of Quarters of Wheat, Barley, and Oats, sold in Mark Lane, as appears from the Inspector's Returns, at the following Periods.

| | WHEAT. Quarters. | BARLEY. Quarters. | OATS. Quarters. |
|---|---|---|---|
| From 1st November 1818 to 1st March 1819, ..... | 65,804 | 107,764 | 137,272 |
| From 1st November 1819 to 1st March 1820, ..... | 100,582 | 117,144 | 164,017 |
| From 1st November 1820 to 1st March 1821, ..... | 106,465 | 96,703 | 134,586 |
| From 1st November 1821 to 1st March 1822. ..... | 170,621 | 96,127 | 216,870 |

# PLAN

FOR THE ESTABLISHMENT OF

# A NATIONAL BANK.

LONDON.

1824.

# PREFACE.

It was the intention of Mr Ricardo, on retiring into the country after the last session of Parliament, to employ part of his leisure in committing to paper, with a view to publication, a scheme by which, in his opinion, the profit derived from the supply of Paper Currency might be afforded to the public without any diminution of security against the inconveniences to which such a currency is liable. It was known, previous to his last illness, that he had carried his design into execution; and the following pages were found among his papers after his decease. It is not known that Mr Ricardo thought any alteration or addition necessary, unless it be in one point. Having communicated his MS. to a member of his own family, who was near him at the time of its completion; and it being suggested to him that difficulty might be experienced in the country, as the notes of one district were not to be payable in another, in obtaining currency for the purposes of travelling; he admitted that something to obviate this inconvenience might be required, but thought that some very simple arrangement would answer the end. It does not appear that he had committed to writing any expedient which might have occurred to him for that purpose; and his friends have deemed it most proper to commit his manuscript to the press, with this explanation, in the state precisely in which it was found.

# PLAN

FOR

# THE ESTABLISHMENT OF A NATIONAL BANK.

THE Bank of England performs two operations of banking, which are quite distinct, and have no necessary connexion with each other: it issues a paper currency as a substitute for a metallic one; and it advances money in the way of loan, to merchants and others.

That these two operations of banking have no necessary connexion, will appear obvious from this,—that they might be carried on by two separate bodies, without the slightest loss of advantage, either to the country, or to the merchants who receive accommodation from such loans.

Suppose the privilege of issuing paper money were taken away from the Bank, and were in future to be exercised by the State only, subject to the same regulation to which the Bank is now liable, of paying its notes, on demand, in specie; in what way would the national wealth be in the least impaired? We should then, as now, carry on all the traffic and commerce of the country, with the cheap medium, paper money, instead of the dear medium, metallic money; and all the advantages which now flow from making this part of the national capital productive, in the form of raw material, food, clothing, machinery, and implements, instead of retaining it useless, in the form of metallic money, would be equally secured.

The public, or the Government on behalf of the public, is indebted to the Bank in a sum of money larger than the whole amount of bank notes in circulation; for the Government not only owes the Bank 15 millions, its original capital, which is lent at 3 per cent. interest, but also many more millions, which are advanced on exchequer bills, on half-pay and pension annuities, and on other securities. It is evident, therefore, that if the Government itself were to be the sole issuer of paper money, instead of borrowing it of the Bank, the only difference would be with respect to the interest:—the Bank would no longer receive interest, and the Government would no longer pay it: but all other classes in the community would be exactly in the same position in which they now stand. It is evident, too, that there would be just as much money in circulation; for it could make no difference, in that respect, whether the 16 millions of paper money now circulating

in London, were issued by Government, or by a banking corporation. The merchants could suffer no inconvenience from any want of facility in getting the usual advances made to them in the way of discount or in any other manner; for, first, the amount of those advances must essentially depend upon the amount of money in circulation, and that would be just the same as before: and, secondly, of the amount in circulation, the Bank would have precisely the same proportion, neither less nor more, to lend to the merchants.

If it be true, as I think I have clearly proved, that the advances made by the Bank to the Government exceed the whole amount of the notes of the Bank in circulation, it is evident that part of its advances to Government, as well as the whole of its loans to other persons, must be made from other funds, possessed, or at the disposal of the Bank, and which it would continue to possess after Government had discharged its debt to it, and after all its notes were withdrawn from circulation. Let it not then be said that the Bank charter, as far as regards the issuing of paper money, ought to be renewed, for this reason, that if it be not, the merchants will suffer inconvenience, from being deprived of the usual facilities of borrowing; as I trust I have shown that their means of borrowing would be just as ample as before.

It may, however, be said that, if the Bank were deprived of that part of its business which consists in issuing paper money, it would have no motive to continue a joint stock company, and would agree on a dissolution of its partnership. I believe no such thing; it would still have profitable means of employing its own funds; but suppose I am wrong, and that the company were dissolved, what inconvenience would commerce sustain from it? If the joint stock of the company be managed by a few directors, chosen by the general body of proprietors, or, if it be divided amongst the proprietors themselves, and each share be managed by the individual to whom it belongs, will that make any difference in its real amount, or in the efficacy with which it may be employed for commercial purposes? It is probable that in no case would it be managed by the individual proprietors, but that it would be collected in a mass or masses, and managed with much more economy and skill than it is now managed by the Bank. A great deal too much stress has always been laid on the benefits which commerce derives from the accommodation afforded to merchants by the Bank. I believe it to be quite insignificant compared with that which is afforded by the private funds of individuals. We know that at the present moment the advances by the Bank to merchants, on discount, are of a very trifling amount; and we have abundant evidence to prove that at no time have they been great. The whole fund at the disposal of the Bank for the last thirty years is well known. It consisted of its own capital and savings—of the amount of deposits left with it by Government and by

individuals, who employed it as a banker. From this aggregate fund must be deducted the amount of cash and bullion in the coffers of the Bank, the amount of advances to the holders of receipts for the loans contracted for during each year, and the amount of advances to Government in every way. After making these deductions, the remainder only could have been devoted to commercial objects, and if it were ascertained, would, I am sure, be comparatively of a small amount.

From papers laid before Parliament in 1797, in which the Bank gave a number as unit, and a scale of its discounts for different years, it was calculated by some ingenious individual, after comparing this scale with other documents also laid before Parliament, that the amount of money advanced in the way of discount to the merchants, for a period of three years and a half previous to 1797, varied from 2 millions to 3,700,000*l.* These are trifling amounts in such a country as this, and must bear a small proportion to the sum lent by individuals for similar purposes. In 1797, the advances to Government alone by the Bank, exclusive of its capital, which was also lent to Government, were more than three times the amount of the advances to the whole body of merchants.

A Committee of the House of Commons was appointed last session of Parliament to inquire into the law of pledges, and into the relation of consignors of goods from abroad to consignees. This committee called before it Mr Richardson, of the house of Richardson, Overend and Co., eminent discount brokers in the city. This gentleman was asked—

"*Q.* Are you not in the habit occasionally of discounting to a large extent bills of brokers and other persons, given upon the security of goods deposited in their hands?

"*A.* Very large.

"*Q.* Have you not carried on the business of a bill broker and money agent to a very large extent, much beyond that of any other individual in this town?

"*A.* I should think very much beyond.

"*Q.* To the extent of some millions annually?

"*A.* A great many; about 20 millions annually,—sometimes more."

The evidence of Mr Richardson satisfactorily proves, I think, the extent of transactions of this kind, in which the Bank has no kind of concern. Can any one doubt that, if the Bank were to break up its establishment, and divide its funds among the individual proprietors, the business of Mr Richardson, and of others who are in the same line, would considerably increase? On the one hand, they would have more applications made to them for money on discount: on the other, many who would have money to dispose of would apply to them to obtain employment for it. The same amount of money, and no more, would be employed in this branch of business; and if not employed by the Bank, or by the individual

proprietors, if they had the management of their own funds, it would inevitably find its way, either by a direct or circuitous channel, to Mr Richardson, or to some other money agent, to be employed by him in promoting the commerce and upholding the trade of the country; for in no other way could these funds be made so productive to the parties to whom they would belong.

If the view which I have taken of this subject be a correct one, it appears that the commerce of the country would not be in the least impeded by depriving the Bank of England of the power of issuing paper money, provided an amount of such money, equal to the Bank circulation, was issued by Government; and that the sole effect of depriving the Bank of this privilege would be to transfer the profit which accrues from the interest of the money so issued from the Bank to Government.

There remains, however, one other objection to which the reader's attention is requested.

It is said that Government could not be safely entrusted with the power of issuing paper money; that it would most certainly abuse it; and that, on any occasion when it was pressed for money to carry on a war, it would cease to pay coin, on demand, for its notes; and from that moment the currency would become a forced Government paper. There would, I confess, be great danger of this, if Government—that is to say, the Ministers—were themselves to be entrusted with the power of issuing paper money. But I propose to place this trust in the hands of Commissioners, not removable from their official situation but by a vote of one or both Houses of Parliament. I propose also to prevent all intercourse between these Commissioners and Ministers, by forbidding every species of money transaction between them. The Commissioners should never, on any pretence, lend money to Government, nor be in the slightest degree under its control or influence. Over Commissioners so entirely independent of them, the Ministers would have much less power than they now possess over the Bank Directors. Experience shows how little this latter body have been able to withstand the cajolings of Ministers; and how frequently they have been induced to increase their advances on exchequer bills and treasury bills, at the very moment they were themselves declaring that it would be attended with the greatest risk to the stability of their establishment, and to the public interest. From a perusal of the correspondence between Government and the Bank, previous to the stoppage of Bank payments, in 1797, it will be seen, that the Bank attributes the necessity of that measure (erroneously in this instance, I think), to the frequent and urgent demands for an increase of advances on the part of Government. I ask, then, whether the country would not possess a greater security against all such influence, over the minds of the issuers of paper, as would induce them to swerve from the strict line of their duty, if the paper money of the country were issued by Commissioners, or

the plan I have proposed, rather than by the Bank of England, as at present constituted? If Government wanted money, it should be obliged to raise it in the legitimate way; by taxing the people; by the issue and sale of exchequer bills, by funded loans, or by borrowing from any of the numerous banks which might exist in the country; but in no case should it be allowed to borrow from those who have the power of creating money.

If the funds of the Commissioners became so ample as to leave them a surplus which might be advantageously disposed of, let them go into the market and purchase publicly Government securities with it. If on the contrary it should become necessary for them to contract their issues, without diminishing their stock of gold, let them sell their securities, in the same way, in the open market. By this regulation a trifling sacrifice would be made, amounting to the turn of the market, which may be supposed to be gained by those whose business it is to employ their capital and skill in dealing in these securities; but in a question of this importance such a sacrifice is not worth considering. It must be recollected that, from the great competition in this particular business, the turn of the market is reduced to a very small fraction, and that the amount of such transactions could never be great, as the circulation would be kept at its just level, by allowing for a small contraction or extension of the treasure in coin and bullion, in the coffers of the Commissioners. It would be only when, from the increasing wealth and prosperity of the country, the country required a permanently increased amount of circulation, that it would be expedient to invest money in the purchase of securities paying interest, and only in a contrary case, that a part of such securities would be required to be sold. Thus, then, we see that the most complete security could be obtained against the influence, which, on a first and superficial view, it might be supposed Government would have over the issues of a National Bank; and that, by organising such an establishment, all the interest, which is now annually paid by Government to the Bank, would become a part of the national resources.

I would propose, then, some such plan as the following, for the establishment of a National Bank:—

1. Five Commissioners shall be appointed, in whom the full power of issuing all the paper money of the country shall be exclusively vested.

2. On the expiration of the charter of the Bank of England, in 1833, the Commissioners shall issue 15 millions of paper money, the amount of the capital of the Bank lent to Government, with which that debt shall be discharged. From that time the annual interest of 3 per cent. shall cease and determine.

3. On the same day 10 millions of paper money shall be employed by the Commissioners in the following manner:—With such parts of that sum as they may think expedient, they shall purchase gold bullion of the Bank, or of other persons; and with the remainder,

within six months from the day above mentioned, they shall redeem a part of the Government debt to the Bank on exchequer bills. The exchequer bills so redeemed shall thereafter remain at the disposal of the Commissioners.

4. The Bank shall be obliged, with as little delay as convenient, after the expiration of its charter, to redeem all its notes in circulation, by the payment of them in the new notes issued by Government. It shall not pay them in gold, but shall be obliged to keep always a reserve of the new notes, equal in amount to its own notes which may remain in circulation.

5. The notes of the Bank of England shall be current for six months after the expiration of the Bank charter, after which they shall no longer be received by Government in payment of the revenue.

7. Within six months after the expiration of the Bank charter, the notes of the country banks shall cease to circulate, and the different banks which shall have issued them shall be under the same obligation as the Bank of England, to pay them in Government notes. They shall have the privilege of paying their notes in gold coin, if they prefer so to do.

8. For the greater security of the holders of Government notes, residing in the country, there shall be agents in the different towns, who shall be obliged, on demand, to verify the genuineness of the notes, by affixing their signatures to them, after which such notes shall be exchangeable only in the district where they are so signed.

9. Notes issued in one district, or bearing the signature of an agent in one district, shall not be payable in any other; but on the deposit of any number of notes, in the office of the district where they were originally issued, or where they were signed, agreeably to the last regulation, a bill may be obtained on any other district, payable in the notes of that district.

10. Notes issued in the country shall not be payable in coin in the country; but for such notes a bill may be obtained on London, which will be paid in coin, or in London notes, at the option of the party presenting the bill in London.

11. Any one depositing coin, or London notes, in the London office, may obtain a bill payable in the notes of any other district, to be named at the time of obtaining the bill. And any one depositing coin in the London office may obtain London notes to an equal amount.

12. The Commissioners in London shall be obliged to buy any quantity of gold of standard fineness, and exceeding one hundred ounces in weight, that may be offered them, at a price not less than 3*l*. 17s. 6d. per ounce.

13. From the moment of the establishment of the National Bank, the Commissioners shall be obliged to pay their notes and bills, on demand, in gold coin.

14. Notes of one pound shall be issued at the first establishment of the National Bank, and shall be given to any one requiring them

in exchange for notes of a larger amount, if the person presenting them prefer such notes to coin. This regulation to continue in force only for one year, as far as regards London, but to be a permanent one in all the country districts.

15. It must be well understood, that in country districts the agents will neither be liable to give notes for coin, nor coin for notes.

16. The Commissioners shall act as the general banker to all the public departments, in the same manner as the Bank of England now acts; but they shall be precluded from fulfilling the same office, either to any corporation, or to any individual whatever.

---

On the subject of the first regulation I have already spoken. The Commissioners should be, I think, five in number—they should have an adequate salary for the business which they would have to perform and superintend—they should be appointed by Government, but not removable by Government.

The second regulation refers to the mode in which the new paper circulation should be substituted for the old. By the provision here made, 25 millions of paper money will be issued; that sum will not be too large for the circulation of the whole country, but if it should be, the excess may be exchanged for gold coin, or the Commissioners may sell a portion of their exchequer bills, and thus diminish the amount of the paper circulation. There are other modes by which the substitution of the new notes for the old might be made, if the Bank of England co-operated with the Commissioners: but the one here proposed would be effectual. It might be desirable that Government should purchase from the Bank, at a fair valuation, the whole of its buildings, if the Bank were willing to part with them; and also take all its clerks and servants into pay. It would be but just to the clerks and servants of the Bank to provide employment and support for them. and would be useful to the public to have the services of so many tried and experienced officers to conduct their affairs. It is a part of my plan, too, that the payment to the Bank for the management of the national debt should wholly cease at the expiration of the Bank charter; and that this department of the public business should be put under the superintendence and control of the Commissioners.

The third regulation provides for a proper deposit of gold coin and bullion, without which the new establishment could not act. In fact, there would be 14 millions instead of 10, at the disposal of the Commissioners. It has been seen, by one of the subsequent regulations, that the Commissioners would act as banker to the public departments; and as it is found by experience, that, on the average, these departments have 4 millions in their banker's hands, the Commissioners would have these 4 millions in addition to the 10 millions. If 5 millions were devoted to the purchase of coin and bullion, 9 millions would be invested in floating securities. If 8 millions were invested in gold, 6 millions would remain for the

purchase of exchequer bills. Whatever debt remained due to the Bank, after this second payment made by the Commissioners, must be provided for by loan, or made the subject of a special agreement between the Government and the Bank of England.

The fourth and fifth regulations provide for the substitution of the new paper money for the old, and protect the Bank from the payment in specie of the notes which it may have outstanding. This cannot be attended with any inconvenience to the holders of those notes, because the Bank is bound to give them Government notes, which are exchangeable on demand for gold coin.

The seventh regulation provides for the substitution of the new notes for the old country bank notes. The country banks could have no difficulty in providing themselves with the new notes for that purpose. All their transactions finally settle in London, and their circulation is raised upon securities deposited there. By disposing of these securities, they would furnish themselves with the requisite quantity of money to provide for the payment of their notes; consequently the country would at no time be in want of an adequate circulation. The circulation of the country banks is estimated at about 10 millions.

The eighth regulation provides against fraud and forgery. In the first instance, paper money cannot be issued from each district. but must all be sent from London. It is just, therefore, that some public agent should, in as many places as convenient, be prepared to verify the genuineness of the notes. After a time, the circulation of each district would be carried on by notes issued in that district, in forms sent for that purpose from London.

The ninth regulation provides every possible facility for making remittances and payments to any district in the country. If a man at York wishes to make a payment of 1000*l.* to a person at Canterbury, by the payment of 1000*l.* in notes issued at York to the agent in that town, he may receive a bill for 1000*l.*, payable at Canterbury in the notes of that district.

The tenth regulation provides for the payment of the notes of every district in coin in London. If a man in York wants 1000*l.* in coin, Government should not be at the expense of sending it to him: he ought to be at that expense himself. This is a sacrifice that must be made for the use of paper money; and if the inhabitants of the country are not contented to submit to it, they may use gold instead of paper; they must, nevertheless, be at the expense of procuring it.

The eleventh regulation, as well as the ninth, provides for making remittances and payments to all parts of the country.

The twelfth regulation provides against the amount of the paper currency being too much limited in quantity, by obliging the Commissioners to issue it at all times in exchange for gold at the price of 3*l.* 17s. 6d. per ounce. Regulating their issues by the price of gold, the Commissioners could never err. It might be expedient

to oblige them to sell gold bullion at 3*l.* 17s. 9d., in which case the coin would probably never be exported, because that can never be obtained under 3*l.* 17s. 10½d. per ounce. Under such a system, the only variations that could take place in the price of gold, would be between the prices of 3*l.* 17s. 6d. and 3*l.* 17s. 9d.; and by watching the market price, and increasing their issues of paper when the price inclined to 3*l.* 17s. 6d. or under, and limiting them, or withdrawing a small portion, when the price inclined to 3*l.* 17s. 9d. or more, there would not probably be a dozen transactions in the year by the Commissioners in the purchase and sale of gold; and if there were, they would always be advantageous, and leave a small profit to the establishment. As it is, however, desirable to be on the safe side in managing the important business of a paper money in a great country, it would be proper to make a liberal provision of gold, as suggested in a former regulation, in case it should be thought expedient occasionally to correct the exchanges with foreign countries, by the exportation of gold as well as by the reduction of the amount of paper.

The thirteenth regulation obliges the Commissioners to pay their notes on demand in gold coin.

The fourteenth regulation provides for a supply of one-pound notes for the country circulation. On the first establishment of the National Bank, but not afterwards, these are to be issued in London, to be subsequently countersigned in the country. As a check on the country agents, every description of note might be sent to them from London, numbered and signed. After receiving them, the agent should countersign them before they were issued to the public; and he should be held strictly responsible for the whole amount sent to him, in the same manner as the distributors of stamps are responsible for the whole amount of stamps sent to them. It is hardly necessary to observe, that the country agents ought to be in constant correspondence with the London district, for the purpose of giving information of all their proceedings. Suppose a country agent has given 100 notes of 1*l.* for a note of 100*l.*, he must give information of that fact, sending at the same time the larger note for which he has given them. His account in London would be credited and debited accordingly. If he receive 100*l.* in notes, and give a bill on another district, he must give advice, both to the London district and to the district on which the bill is given, sending up the note as in the former instance. His account will be credited for this 100*l.*, and the agent of the other district will be charged with it. It is not requisite to go any farther into details; I may already have said too much; but my object has been to show that the security for the detection of fraud is nearly perfect, as vouchers for every transaction would all be originally issued in London, and must be returned to London, or be in the possession of the country agent.

The fifteenth regulation is only explanatory of some of the former regulations.

The sixteenth regulation directs that the Commissioners shall act as banker to the public departments, and to the public departments only.

If the plan now proposed should be adopted, the country would probably, on the most moderate computation, save 750,000*l.* per annum. Suppose the circulation of paper money to amount to 25 millions, and the Government deposits to 4 millions, these together make 29 millions. On all this sum interest would be saved, with the exception of 6 millions, perhaps, which it might be thought necessary to retain as deposits, in gold coin and bullion, and which would consequently be unproductive. Reckoning interest, then, at 3 per cent. only on 23 millions, the public would be gainers of 690,000*l.* To this must be added 248,000*l.* which is now paid for the management of the public debt, making together 938,000*l.* Now, supposing the expenses to amount to 188,000*l.*, there would remain for the public an annual saving or gain of 750,000*l.*

It will be remarked that the plan provides against any party but the Commissioners in London making an original issue of notes. Agents in other districts in the country, connected with the Commissioners, may give one description of notes for another; they may give bills for notes, or notes for bills drawn on them; but, in the first instance, every one of these notes must be issued by the Commissioners in London, and consequently the whole is strictly under their cognizance. If from any circumstances the circulation in any particular district should become redundant, provision is made for the transfer of such redundancy to London; and if it should be deficient, a fresh supply is obtained from London. If the circulation of London should be redundant, it will show itself by the increased price of bullion and the fall in the foreign exchanges, precisely as a redundancy is now shown; and the remedy is also the same as that now in operation, viz. a reduction of circulation, which is brought about by a reduction of the paper circulation. That reduction may take place two ways; either by the sale of exchequer bills in the market, and the cancelling of the paper money which is obtained for them,—or by giving gold in exchange for the paper, cancelling the paper as before, and exporting the gold. The exporting the gold will not be done by the Commissioners; that will be effected by the commercial operation of the merchants, who never fail to find gold the most profitable remittance when the paper money is redundant and excessive. If, on the contrary, the circulation of London were too low, there would be two ways of increasing it,—by the purchase of Government securities in the market, and the creation of new paper money for the purpose; or by the importation and purchase, by the Commissioners, of gold bullion, for the purchase of which new paper money would be created. The importation would take place through commercial operations, as gold never fails to be a profitable article of import when the amount of currency is deficient.

# ESSAY

ON

# THE FUNDING SYSTEM,

WRITTEN FOR THE

SUPPLEMENT TO THE SIXTH EDITION OF THE
"ENCYCLOPÆDIA BRITANNICA."

# ESSAY

ON

# THE FUNDING SYSTEM.

---

Under this head we propose, first, to give an account of the rise, progress, and modifications of the Sinking Fund, accompanied with some observations as to the probability of its accomplishing the object for which it was instituted; and next, briefly to consider the best mode of providing for our annual expenditure both in war and peace,—an inquiry necessarily involving the policy of that System of Funding of which the sinking fund was long considered as one of the principal recommendations and props.

I. On the subject of the sinking fund, we shall have frequent occasion to refer to the statements of Professor Hamilton, in his very valuable publication entitled "An Inquiry concerning the Rise and Progress, the Redemption, and Present State of the National Debt of Great Britain." "The first plan for the discharge of the national debt, formed on a regular system, and conducted with a considerable degree of firmness," says this able writer, "was that of the sinking fund, established in 1716. The author of this plan was the Earl of Stanhope; but as it was adopted under the administration of Sir Robert Walpole, it is commonly denominated from him. The taxes which had before been laid on for limited periods, being rendered perpetual, and distributed among the *South Sea*, *Aggregate*, and *General Funds*, and the produce of these funds being greater than the charges upon them, the surplusses, together with such further surplusses as might afterwards accrue, were united under the name of the *Sinking Fund*, being appropriated for the discharge of the national debt, and expressly ordained to be applicable to no other purpose whatever. The legal interest had been reduced from 6 to 5 per cent. about two years before; and as that

reduction was unfavourable to the commercial state of the country, Government was now able to obtain the same reduction on the interest of the public debt, and apply the savings in aid of the sinking fund. In 1727 a further reduction of the interest of the public debt, from 5 to 4 per cent. was obtained, by which nearly 400,000*l.* was added to the sinking fund. And, in the year 1749, the interest of part of the debt was again reduced to 3½ per cent. for seven years, and to 3 per cent. thereafter; and, in 1750, the interest of the remainder was reduced to 3½ per cent. for five years, and to 3 per cent. thereafter, by which a further saving of about 600,000*l.* was added to the sinking fund."

This sinking fund was for some time regularly applied to the discharge of debt. The sums applied from 1716 to 1728 amounted to 6,648,000*l.*, being nearly equal to the additional debt contracted in that time. From 1728 to 1733, 5,000,000*l.* more were paid. The interest of several loans, contracted between 1727 and 1732, was charged upon surplus duties, which, according to the original plan, ought to have been appropriated to the sinking fund.

"Soon after, the principle of preserving the sinking fund inviolable was abandoned. In 1733, 500,000*l.* was taken from that fund, and applied to the services of the year." "In 1734, 1,200,000*l.* was taken from the sinking fund for current services; and in 1735 it was anticipated and mortgaged." The produce of the sinking fund at its commencement in 1717, was 323,437*l.* In 1776, it was at its highest amount, being then 3,166,517*l.*; in 1780, it had sunk to 2,403,017*l.*

"The sinking fund would have risen higher, had it not been depressed, especially in the latter period, by various encroachments. It was charged with the interest of several loans, for which no provision was made; and, in 1772, it was charged with an annuity of 100,000*l.*, granted in addition to the civil list. During the three wars which were waged while it subsisted, the whole of its produce was applied to the expense of the war; and even in time of peace, large sums were abstracted from it for current services. According to Dr Price, the amount of public debt paid off by the sinking fund, since its first alienation in 1733, was only 3 millions, paid off in 1736 and 1737; 3 millions in the peace between 1748 and 1756; 2½ millions in the peace between 1763 and 1775; in all 8½ millions.

"The additional debt discharged during these periods of peace was effected, not by the sinking fund, but from other sources.

"On the whole, this fund did little in time of peace, and nothing in time of war, to the discharge of the national debt. The purpose of its inviolable application was abandoned, and the hopes entertained of its powerful efficacy entirely disappointed. At this time, the nation had no other free revenue, except the land and malt-tax granted annually; and as the land-tax during peace was then granted at a low rate, their produce was inadequate to

the expense of a peace establishment, on the most moderate scale. This gave occasion to encroachments on the sinking fund. Had the land-tax been always continued at 4s. in the pound, it would have gone far to keep the sinking fund, during peace, inviolate."

This fund terminated in 1786, when Mr Pitt's sinking fund was established.

To constitute this new fund, 1 million per annum was appropriated to it by Parliament, the capital stock of the national debt then amounting to 238,231,248*l.*

This million was to be allowed to accumulate at compound interest, by the addition of the dividends on the stock which it purchased, till it amounted to 4 millions, from which time it was not further to increase. The four millions were then annually to be invested in the public funds as before, but the dividends arising from the stock purchased were no longer to be added to the sinking fund for the purpose of being invested in stock; they were to be applied to the diminution of taxes, or to any other object that Parliament might direct.

A further addition to this fund was proposed by Mr Pitt, and readily adopted in 1792, consisting of a grant of 400,000*l.* arising from the surplus of the revenue, and a further annual grant of 200,000*l.*; but it was expressly stipulated that no relief from taxation should be given to the public, as far as this fund was concerned, till the original million, with its accumulations, amounted to 4 millions. The addition made to the fund, by the grant of 400,000*l.*, and of 200,000*l.* per annum, together with the interest on the stock these sums might purchase, were not to be taken or considered as forming any part of the 4 millions. At the same time (in 1792), a sinking fund of a new character was constituted. It was enacted, that besides a provision for the interest of any loan which should thenceforward be contracted, taxes should also be imposed for a 1 per cent. sinking fund on the capital stock created by it, which should be exclusively employed in the liquidation of such particular loan; and that no relief should be afforded to the public from the taxes which constituted the 1 per cent. sinking fund, until a sum of capital stock, equal in amount to that created by the loan, had been purchased by it. That being accomplished, both the interest and sinking fund were to be applicable to the public service. It was calculated, that, under the most unfavourable circumstances, each loan would be redeemed in forty-five years from the period of contracting it. If made in the 3 per cent., and the price of that stock should continue uniformly at 60. the redemption would be effected in twenty-nine years.

In the years 1798, 1799, and 1800, a deviation was made from Mr Pitt's plan of providing a sinking fund of 1 per cent. on the capital stock created by every loan; for the loans of those years had no sinking fund attached to them. The interest was charged

on the war-taxes; and, in lieu of a 1 per cent. sinking fund, it was provided that the war-taxes should continue during peace, to be then employed in their redemption, till they were all redeemed.

In 1802, Lord Sidmouth, then Mr Addington, was chancellor of the exchequer. He being desirous of liberating the war-taxes from the charges with which they were encumbered, proposed to raise new annual permanent taxes for the interest of the loans of which we have just spoken, as well as for that which he was under the necessity of raising for the service of the year 1802; but he wished to avoid loading the public with additional taxes for a 1 per cent. sinking fund on the capitals created by those loans, and which capitals together amounted to 86,796,375*l.* To reconcile the stockholder to this arrangement, he proposed to rescind the provision which limited the fund of 1786 to 4 millions, and to consolidate the old and the new sinking funds, *i. e.* that which arose from the original million per annum, with the addition made to it of 200,000*l.* per annum subsequently granted, and that which arose from the 1 per cent. on the capital of every loan that had been contracted since 1792. These combined funds he proposed should, from that time, be applied to the redemption of the whole debt without distinction; that the dividends arising from the stock purchased by the commissioners for the reduction of the national debt should be applied in the same manner; and that this arrangement should not be interfered with till the redemption of the whole debt was effected.

In February 1803 the debt amounted to 480,572,470*l.*, and the produce of the joint sinking fund to 6,311,626*l.* In 1786 the proportion of the sinking fund to the debt was as 1 to 238, in 1792 as 1 to 160, and in 1803 as 1 to 77.

This was the first deviation of importance from Mr Pitt's plan; and this alteration made by Lord Sidmouth was not, perhaps, on the whole, injurious to the stockholder. He lost, indeed, the immediate advantage of an additional sinking fund of 867,963*l.*, the amount of 1 per cent. on the capitals created by the loans of 1798, 1799, 1800, and 1802; "but in lieu," says Mr Huskisson, "of this sinking fund, a reversionary sinking fund was created, to commence, indeed, in about twelve to fifteen years from that time, but to be of such efficacy when it should commence, and to be so greatly accelerated by subsequent additions in its progress, as, under the most unfavourable supposition, to be certain of reducing the whole of this debt within forty-five years. This reversionary sinking fund was to arise in the following manner; by continuing the *old* sinking fund at *compound* interest, *after* it should have reached its *maximum* of 4 millions; and by continuing also the *new* sinking fund or aggregate of the 1 per cents. of the loans since 1792, after such 1 per cents. should have liquidated the several loans in respect of which they are originally issued. There is

nothing, therefore, in the act of 1802 which is a departure from the spirit of the act of 1792."*

The next alteration that was proposed to be made in the sinking fund was in 1807, by Lord Henry Petty, then chancellor of the exchequer. His plan was extremely complicated, and had for its object, that which ministers are too much disposed at all times to view with complacency, namely, to lessen the burden of taxation at the present, with the certainty of aggravating its pressure at a future day.

It was estimated by Lord Henry Petty, that the expenses of the country during war would exceed its permanent annual revenue by 32 millions. For 21 millions of this deficiency provision was made by the war-taxes; the property-tax amounting to 11,500,000*l.*, and the other war-taxes to 9,500,000*l.* The object then was to provide 11 millions per annum. If this sum had been raised by a loan in the 3 per cents., when their price was 60, provision must have been made by taxes for the interest and sinking fund, so that each year we should have required additional taxes to the amount of 733,333*l.* But Government wished to raise the money without imposing these additional taxes, or by the imposition of as few as circumstances would permit. For this purpose they proposed to raise the money required by loan, in the usual way, but to provide, out of the war-taxes, for the interest and redemption of the stock created. They proposed to increase the sinking fund of every such loan, by taking from the war-taxes 10 per cent. on its amount for interest and sinking fund, so that if the interest and management absorbed only 5 per cent., the sinking fund would also amount to 5 per cent.; if the interest amounted to 4 per cent. the sinking fund would be 6 per cent. The sums proposed to be borrowed in this manner were 12 millions for the first three years, 14 millions for the fourth, and 16 millions for each succeeding year; making together, in 14 years, 210 millions, for which, at the rate of 10 per cent., the whole of the war-taxes would be mortgaged. It was calculated, that, by the operation of the sinking fund, each loan would be paid off in fourteen years from the time of contracting it; and, therefore, the 1,200,000*l.* set apart for the interest and sinking fund of the first loan would be liberated and available for the loan of the fifteenth year. At the end of fifteen years a like sum would be set free, and so on each succeeding year; and thus loans might be continued, on this system, without any limitation of time.

But these successive sums could not be withdrawn from the war-taxes, for interest and sinking fund on loans, and be at the same time applied to expenditure; and, therefore, the deficiency of 11 millions, for which provision was to be made, would, from year to year, increase as the war-taxes became absorbed; and at the end of fourteen years, when the whole 21 millions of the war-taxes

* Mr Huskisson's *Speech on the State of the Finance and Sinking Fund*, 25th March 1813.

would be absorbed, instead of 11 millions the deficiency would be 32 millions.

To provide for this growing deficiency, it was proposed to raise supplementary loans, increasing in amount from year to year, and for the interest and sinking fund on such loans provision was to be made in the usual way, by annual permanent taxes; on these loans the sinking fund was not to be more than 1 per cent.

By the plan proposed, in fifteen years from its commencement, on the supposition of the war continuing so long, the regular loan would have been 12 millions, and the supplementary loan 20 millions.

If the expenses of the war should *have exceeded* the estimate then made, provision for such excess was to *have been* made by other means.

The ministry who proposed this plan not continuing in office, it was acted upon only for one year. "In comparing the merit of different systems," says Dr Hamilton, "the only points necessary to be attended to are the amount of the loans contracted—the part of these loans redeemed—the interest incurred—and the sums raised by taxes. The arrangements of the loan under different branches, and the appropriation of particular funds for payment of their respective interests, are matters of official regulation; and the state of the public finance is neither the better nor the worse, whether they be conducted one way or other. A complicated system may perplex and mislead, but it can never ameliorate." Accordingly, Dr Hamilton has shown, that the whole amount of taxes that would have been paid in twenty years, for an annual loan of 11 millions on the old plan of a sinking fund of 1 per cent., would be 154 millions. On Lord Henry Petty's plan, these taxes would, in the same time, have been 93 millions,—a difference in favour of Lord Henry Petty's plan of 51 millions; but to obtain this exemption we should have been encumbered with an additional debt of 119,489,788*l.* of money capital, which, if raised in a 3 per cent. stock at 60, would be equal to a nominal capital of 199,149,646*l.*

The sinking fund was established with a view to diminish the national debt during peace, and to prevent its rapid increase during war. The only wise and good object of war-taxes is also to prevent the accumulation of debt. A sinking fund and war-taxes are only useful while they are strictly applied to the objects for which they are raised; they become instruments of mischief and delusion when they are made use of for the purpose of providing the interest on a new debt.

In 1809 Mr Perceval, who was then chancellor of the exchequer, mortgaged 1,040,000*l.* of the war-taxes for the interest and sinking fund of the stock he funded in that year.

By taking more than a million from the war-taxes, not for the annual expenditure, but for the interest of a loan, Mr Perceval rendered it necessary to add 1 million to the loan of the next and

all following years; so that the real effect of this measure differed in no respect from one which should have taken the same sum annually from the sinking fund.

In 1813, the next and most important alteration was made in the sinking fund. Mr Vansittart was then chancellor of the exchequer. It has been already observed, that the national debt amounted to 238,231,248*l.* in 1786, when Mr Pitt established his sinking fund of 1 million. By the act of 1786, as soon as the sum of 1 million amounted, by the aid of the dividends on the stock which was to be purchased by it, to 4 millions, its accumulation was to cease, and the dividends on the stock purchased were to be available for the public service. If the 3 per cents. were at 60 when this million had accumulated to 4 millions, the public would have had a disposable fund of 20,000*l.* per annum; if at 80, of 15,000*l.* per annum; and no other relief was to be given to the public till the 4 millions had purchased the whole sum of 238 millions, the then amount of the debt. In 1792 Mr Pitt added 200,000*l.* per annum to the sinking fund, and accompanied it by the following observations:—"When the sum of 4 millions was originally fixed as the limit for the sinking fund, it was not in contemplation to issue more annually from the surplus revenue than 1 million, consequently the fund would not rise to 4 millions till a proportion of debt was paid off, the interest of which, together with the annuities which might fall in in the interval, should amount to 3 millions. But as, on the present supposition, additional sums beyond the original million are to be annually issued from the revenue, and applied to the aid of the sinking fund, the consequence would be, that if that fund, with these additions carried to it, were still to be limited to 4 millions, it would reach that amount, and cease to accumulate, before as great a portion of the debt is reduced as was originally in contemplation." "In order to avoid this consequence, which would, as far as it went, be a relaxation in our system, I should propose, that whatever may be the additional annual sums applied to the reduction of debt, the fund should not cease to accumulate till the interest of the capital discharged, and the amount of the expired annuities should, together with the annual million only, and exclusive of any additional sums, amount to 4 millions."*

It will be recollected, that in 1792 a provision was made for attaching a sinking fund of 1 per cent. to each loan separately, which was to be exclusively employed in the discharge of the debt contracted by that loan; but no part of these 1 per cents. were to be employed in the reduction of the original debt of 238,000,000*l.* The act of 1802 consolidated all these sinking funds, and the public were not to be exempted from the payment of the sinking fund itself, nor of the dividends on the stock to be purchased by the commissioners, till the whole debt existing

* Mr Pitt's Speech, 17th February 1792.

in 1802 was paid off. Mr Vansittart proposed to repeal the act of 1802, and to restore the spirit of Mr Pitt's act of 1792. He acknowledged that it would be a breach of faith to the national creditor, if the fair construction of that act, the act of 1792, were not adhered to. It was, in Mr Vansittart's opinion, no breach of faith to do away the conditions of the act 1802. Supposing, however, that the act of 1802 had been really more favourable to the stockholder than that of 1792, it is not easy to comprehend by what arguments it can be proved not to be a breach of faith to repeal the one and enact the other. Were not all the loans from 1802 to 1813 negotiated on the faith of that act? Were not all bargains made between the buyer and seller of stock made on the same understanding? Government had no more right to repeal the act of 1802, and substitute another less favourable to the stockholder, and acknowledged to be so by the minister himself, than it would have had to get rid of the sinking fund altogether. But what we are at present to inquire into is, whether Mr Vansittart did as he professed to do? Did he restore the stockholder to all the advantages of the act of 1792? In the first place, it was declared by the new act, that as the sinking fund consolidated in 1802, had redeemed 238,350,143*l.* 18s. 1d., exceeding the amount of the debt in 1786 by 118,895*l.* 12s. 10½d., a sum of capital stock equal to the total capital of the public debt existing on the 5th January 1786, viz. 238,231,248*l.* 5s. 2¾d. had been satisfied and discharged; "and that in like manner an amount of public debt equal to the capital and charge of every loan contracted since the said 5th January 1786, shall successively, and in its proper order, be deemed and declared to be wholly satisfied and discharged, when and as soon as a further amount of capital stock, not less than the capital of such loan, and producing an interest equal to the dividends thereupon, shall be so redeemed or transferred."

It was also resolved, "that after such declaration as aforesaid, the capital stock purchased by the commissioners for the reduction of the national debt shall from time to time be cancelled; at such times, and in such proportions, as shall be directed by any act of Parliament to be passed for such purpose, in order to make provision for the charge of any loan or loans thereafter to be contracted."

It was further resolved, that in order to carry into effect the provisions of the acts of the 32d and 42d of the King, for redeeming every part of the national debt within the period of forty-five years from the time of its creation, it is expedient that in future, whenever the amount of the sum to be raised by loan, or by any other addition to the public funded debt, shall in any year exceed the sum estimated to be applicable in the same year to the reduction of the public debt, an annual sum equal to one-half of the interest of the excess of the said loan, or other addition, beyond the sum so estimated to be applicable, shall be

set apart out of the monies composing the consolidated fund of Great Britain, and shall be issued at the receipt of the exchequer to the Governor and Company of the Bank of England, to be by them placed to the account of the commissioners for the reduction of the national debt;* and upon the remainder of such loan or other addition, the annual sum of 1 per cent. on the capital thereof, according to the provisions of the said act.

A provision was also made, for the first time, for 1 per cent. sinking fund on the unfunded debt then existing, or which might thereafter be contracted.

In 1802, it has been already observed, it was deemed expedient that no provision should be made for a sinking fund of 1 per cent. on a capital of 86,796,300*l.*; and as it was considered by the proposer of the new regulation in 1813, that he was reverting to the principle of Mr Pitt's act of 1792, he provided that 867,963*l.* should be added to the sinking fund for the 1 per cent. on the capital stock created, and which was omitted to be provided for in 1802.†

This was the substance of Mr Vansittart's new plan, and which, he contended, was not injurious to the stockholder, as it strictly conformed to the spirit of Mr Pitt's act of 1792.

1*st*, By Mr Pitt's act, no relief could be afforded to the public from the burdens of taxation, till the stock redeemed by the original sinking fund of 1 million amounted to such a sum as that the dividends on the capital stock redeemed should amount to 3 millions, making the whole sinking fund 4 millions; from thenceforth the 4 millions were to discharge debt as before, but the interest of debt so discharged was to be available for the public service, and the public was not to be relieved from the charge on the remainder of the debt of 238 millions till the 4 millions at

* The effect of this clause was to give a sinking fund of 1½ instead of 1 per cent. on such excess of loan above the sinking fund if the loan were raised in a 3 per cent. stock, and of 2½ per cent. if raised in a 5 per cent. stock.

† Mr Vansittart's plan has added to the sinking fund 1 per cent. on a capital of 86,796,300*l.*, . . . . . L.867,936
On 56 millions of exchequer bills outstanding 5th January 1818, 1 per cent., . . . . . 560,000
By attaching a sinking fund of one half the interest, instead of 1 per cent. on a part of the capital created by loans, *he has added to the sinking fund*, . . . . . 793,343

Total added, . . . . . L.2,221,311
From stock cancelled and available for public service, . . 7,632,969

Total deduction from sinking fund on 5th January 1819, L.5,411,658

On the 3d of February 1819 the Commissioners certified that there had been transferred to them 378,519,969*l.* 5s. 3¾d. capital stock, the interest on which was 11,448,564*l.* 10s. 6¼d., and that the debt created prior to and by the 37th Geo. III. amounted to 348,684,197*l.* 1s. 5¾d., with a yearly interest of 11,446,736*l.* 3s. 4¾d.; and consequently the excess redeemed was 29,835,772*l.* 3s. 9¼d., with a yearly interest of 1828*l.* 7s. 1¼d.

simple interest, and the further sinking fund which might arise from the falling in of terminable annuities, together with the additional sum of 200,000*l.* per annum, voted in 1792, with their accumulations, had redeemed the capital of 238 millions. The sinking fund arising from the 1 per cent. on each loan was directed, by the act of 1792, to be applied to each separate loan for which it was raised. Mr Vansittart thought himself justified, and free from any breach of faith to the stockholder, in taking for the public service, not the interest of 4 millions, which is all that Mr Pitt's bill would allow him to take, but the interest on 238 millions; and on what plea? because the whole consolidated sinking funds, comprising the 1 per cent. on every loan raised since 1793, had purchased 238 millions of stock. On Mr Pitt's plan he might have taken 20,000*l.* per annum from the sinking fund; on his own construction of that act, he took from it more than 7 millions per annum.

2*dly*, Mr Vansittart acknowledged that the stockholder, in 1802, was deprived of the advantage of 1 per cent. sinking fund on a capital of 86,796,300*l.*; and therefore, to be very just, he gives in 1813 1 per cent. on that capital; but should he not have added the accumulation which would have been made in the eleven years from 1802 to 1813, on 867,963*l.*, at compound interest, and which would have given a further addition to the sinking fund of more than 360,000*l.* per annum?

3*dly*, On Mr Pitt's plan, every loan was to be redeemed by its sinking fund, under the most unfavourable circumstances, in forty-five years. If the loan was raised in a 3 per cent. fund at 60, and the stock was uniformly to continue at that price, a 1 per cent. sinking fund would redeem the loan to which it was attached in twenty-nine years; but then no relief would be given to the public from taxation till the end of twenty-nine years; and if there had been loans of 10 millions every year for that period, when the first loan was paid off, the second would require only one year for its final liquidation; the third two years, and so on. On Mr Vansittart's plan, under the same circumstances, the sinking fund of each and every loan was to be applied, in the first instance, to the redemption of the first loan; and when that was redeemed and cancelled, the whole of the sinking funds were to be applied to the payment of the second, and so on successively. The first loan of 10 millions would be cancelled in less than thirteen years, the second in less than six years after the first, the third in a less time, and so on. At the end of the thirteenth year, the public would be relieved from the interest on the first loan, or, which is the same thing, from the necessity of finding fresh taxes for a new loan at the end of thirteen years, for two new loans at the end of nineteen years; but what would be the state of its debt at either of these periods, or at the end of twenty-nine years? Could this advantage be obtained without a corresponding disadvantage? No:

the excess of debt on Mr Vansittart's plan would be exactly equal to these various sums, thus prematurely released by cancelled stock, accumulated at compound interest. How could it be otherwise? Is it possible that we could obtain a present relief from the charge of debt without either directly or indirectly borrowing the fund necessary to provide that relief at compound interest? "By this means," says Mr Vansittart, "the loan first contracted would be discharged at an earlier period, and the funds charged with the payment of its interest would become applicable to the public service. Thus, in the event of a long war, a considerable resource might accrue during the course of the war itself, as every successive loan would contribute to accelerate the redemption of those previously existing; and the total amount of charge to be borne by the public, in respect of the public debt, would be reduced to a narrower compass than in the other mode, in which a greater number of loans would be co-existing. At the same time the ultimate discharge of the whole debt would be rather accelerated than retarded."—"It is now only necessary to declare that an amount of stock equal to the whole of the debt existing in 1786 has been redeemed; and that, in like manner, whenever an amount of stock equal to the capital and charge of any loan raised since 1792 shall be redeemed, in its proper order of succession, such loan shall be deemed and taken to be redeemed and satisfied. Every part of the system will then fall at once into its proper place; and we shall proceed with the future redemption with all the advantages which would have been derived from the original adoption of the mode of successive instead of simultaneous redemption. Instead of waiting till the purchase of the whole of the debt consolidated in 1802 shall be completed, that part of it which existed previously to 1792 will be considered as already redeemed, and the subsequent loans will follow in succession, whenever equal portions of stock shall have been purchased. It is satisfactory to observe, that by a gradual and equal progress, we shall have the power of effecting the complete repayment of the debt more speedily than by the present course." Is it possible that Mr Vansittart could so deceive himself as to believe that, by taking 5 millions from the sinking fund, which would not have been taken by the provisions of the act of 1802, which would not have been taken by the act of 1792, and other sums successively, in shorter times than could have been effected by the provisions of those two acts, he would be enabled to complete the repayment of the debt more speedily? Is it possible that he could believe that, by diminishing the sinking fund, that is, the amount of revenue as compared with expenditure, he would effect the payment of our debt more speedily? It is impossible to believe this. How, then, are his words to be accounted for? In one way he might have a meaning. It might be this,—I know we shall be more in debt in ten, twenty, and thirty years, on my plan, than we should have been on that of

Lord Sidmouth or on that of Mr Pitt; but we shall have effected a greater payment in that time of *the stock now existing*, as the sinking funds attached to future loans will be employed in paying our present debt. On Mr Pitt's plan, those sinking funds would be used for the payment of the new debt to be created; that is to say, of the loans to which they are respectively attached. We shall be more in debt at every subsequent period, it is true; but as our debt may be divided into old stock and new stock, I am correct when I say that we shall have the power of completing the repayment of the debt, meaning by the debt the stock now existing, sooner than by the present course.

This plan of Mr Vansittart was opposed with great ability, both by Mr Huskisson and Mr Tierney. The former gentleman said, "The very foundation of the assumption that the old debt has been paid off, is laid in the circumstance of our having incurred a new debt of a much larger amount; and even allowing that assumption, Mr Vansittart would not have been able to erect his present scheme upon it, if the credit of the country had not been, for the last twenty years, materially impaired by the pressure of that new debt. On the one hand, had the sinking fund been operating at 3 per cent. during that period, he would not have touched it, even under his own construction of the act of 1792. On the other hand, had the price of the stocks been still lower than it has been, he would have taken from that sinking fund still more largely than he is now, according to his own rule, enabled to take. This, then, is the new doctrine of the sinking fund;—that, having been originally established 'to prevent the inconvenient and dangerous accumulation of debt hereafter' (to borrow the very words of the act), and for the support and improvement of public credit, it is in the accumulation of new debt that Mr Vansittart found at once the means and the pretence for invading that sinking fund; and the degree of depression of public credit was, with him, the measure of the extent to which that invasion might be carried. And this is the system of which it is gravely predicated that it is no departure from the letter, and no violation of the spirit, of the act of 1792; and of which we are desired seriously to believe, that it is only the following up and improving upon the original measure of Mr Pitt!—of which measure the clear and governing intention was, that every future loan should, from *the moment of its creation*, carry with it the seeds of its destruction; and that the course of its reimbursement should *that moment* be placed beyond the discretion and control of Parliament."—(*Mr Huskisson's Speech, 25th March* 1813.)

This is the last alteration that has taken place in the *machinery* of the sinking fund. Inroads more fatal than this which we have just recorded have been made on the fund itself; but they have been made silently and indirectly, while the machinery has been left unaltered.

It has been shown by Dr Hamilton, that no fund can be efficient

for the reduction of debt but such as arises from an excess of revenue above expenditure.

Suppose a country at peace, and its expenditure, including the interest of its debt, to be 40 millions, its revenue to be 41 millions, it would possess 1 million of sinking fund. This million would accumulate at compound interest, for stock would be purchased with it in the market, and placed in the names of the Commissioners for paying off the debt. These Commissioners would be entitled to the dividends before received by private stockholders, which would be added to the capital of the sinking fund. The fund thus increased would make additional purchases the following year, and would be entitled to a larger amount of dividends, and thus would go on accumulating, till in time the whole debt would be discharged.

Suppose such a country to increase its expenditure 1 million, without adding to its taxes, and to keep up the machinery of the sinking fund, it is evident that it would make no progress in the reduction of its debt; for though it would accumulate a fund in the same manner as before, in the hands of the Commissioners, it would, by means of adding to its funded or unfunded debt, and by constantly borrowing, in the same way, the sum necessary to pay the interest on such loans, accumulate its million of debt annually at compound interest, in the same manner as it accumulated its million annually of sinking fund.

But suppose that it continued its operations of investing the sinking fund in the purchase of stock, and made a loan for the million which it was deficient in its expenditure, and that, in order to defray the interest and sinking fund of such loan, it imposed new taxes on the people to the amount of 60,000*l.*, the real and efficient sinking fund would, in that case, be 60,000*l.* per annum, and no more; for there would be 1,060,000*l.*, and no more, to invest in the purchase of stock, while 1 million was raised by the sale of stock, or, in other words, the revenue would exceed the expenditure by 60,000*l.*

Suppose a war to take place, and the expenditure to be increased to 60 millions, while its revenue continued, as before, 41 millions, still keeping on the operation of the Commissioners with respect to the investment of 1 million. If it were to raise war-taxes for the payment of the 20 millions additional expense, the million of sinking fund would operate to the reduction of the national debt at compound interest as it did before. If it raised 20 millions by loan in the stocks or in exchequer bills, and did not provide for the interest by new taxes, but obtained it by an addition to the loan of the following year, it would be accumulating a debt of 20 millions at compound interest; and while the war lasted, and the same expenditure continued, it would not only be accumulating a debt of 20 millions at compound interest, but a debt of 20 millions per annum · and consequently the real increase of its debt, after

allowing for the operation of the million of sinking fund, would be at the rate of 19 millions per annum at compound interest. But if it provided by new taxes 5 per cent. interest for this annual loan of 20 millions, it would, on the one hand, simply increase the debt 20 millions per annum; on the other, it would diminish it by 1 million per annum, with its compound interest. If we suppose that, in addition to the 5 per cent. interest, it raised also by annual taxes 200,000*l.* per annum as a sinking fund for each loan of 20 millions, it would, the first year of the war, add 200,000*l.* to the sinking fund, the second year 400,000*l.*, the third year 600,000*l.*, and so on, 200,000*l.* for every loan of 20 millions. Every year it would add, by means of the additional taxes, to its annual revenue, without increasing its expenditure. Every year, too, that part of this revenue which was devoted to the purpose of purchasing debt, would increase by the amount of the dividends on the stock purchased, and thus would its revenue still further increase, till at last the revenue would overtake the expenditure, and then once again it would have an efficient sinking fund for the reduction of debt.

It is evident that the result of these operations would be the same, the rate of interest being supposed to be always at 5 per cent., or any other rate, if, during the excess of expenditure above revenue, the operation of the Commissioners in the purchase of stock were to cease. The real increase of the national debt must depend upon the excess of expenditure above revenue, and that would be noways altered by a different arrangement. Suppose that, instead of raising 20 millions the first year, and paying off 1 million, only 19 millions had been raised by loan, and the same taxes had been raised, namely, 1,200,000*l.* As 5 per cent. would be paid on 19 millions only, instead of on 20 millions, or 950,000*l.* for interest instead of 1 million, there would remain, in addition to the original million, 250,000*l.* towards the loan of the following year, consequently the loan of the second year would be only for 18,750,000*l.*; but as 1,200,000*l.* would be again raised by additional taxes, or 2,400,000*l.* in the whole the second year, besides the original million, there would be a surplus, after paying the interest of both loans, of 1,512,500*l.*, and therefore the loan of the third year would be for 18,487,500*l.* The progress during five years is shown in the following table :—

| | Loan each Year. | Amount of Loans. | Amount of Interest. | Amount of Taxes. | Surplus. |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| 1st year..... | 19,000,000 | 19,000,000 | 950,000 | 2,200,000 | 1,250,000 |
| 2d year..... | 18,750,000 | 37,750,000 | 1,887,500 | 3,400,000 | 1,512,500 |
| 3d year..... | 18,487,500 | 56,237,500 | 2,811,875 | 4,600,000 | 1,788,125 |
| 4th year..... | 18,211,875 | 74,449,375 | 3,722,469 | 5,800,000 | 2,077,531 |
| 5th year..... | 17,922,469 | 92,371,844 | 4,618,592 | 7,000,000 | 2,381,408 |

If, instead of thus diminishing the loan each year, the same amount of taxes precisely had been raised, and the sinking fund had been applied in the usual manner, the amount of debt would have been exactly the same at any one of these periods. In the third column of the above table it will be seen, that in the fifth year the debt had increased to 92,371,844*l.* On the supposition that 200,000*l.* per annum had each year been added to the sinking fund, and invested in stock by the Commissioners, the amount of unredeemed debt would have been the same sum of 92,371,844*l.*, as will be seen by the last column of the following table :—

| | Loan each Year. | Amount of Loans. | Debt Redeemed each Year. | Amount Debt Redeemed. | Interest on Debt Redeemed. | Debt remaining Unredeemed. |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| 1st year ... | 20,000,000 | 20,000,000 | 1,000,000 | 1,000,000 | 50,000 | 19,000,000 |
| 2d year ... | 20,000,000 | 40,000,000 | 1,250,000 | 2,250,000 | 112,500 | 37,750,000 |
| 3d year ... | 20,000,000 | 60,000,000 | 1,512,500 | 3,762,500 | 188,125 | 56,237,500 |
| 4th year... | 20,000,000 | 80,000,000 | 1,788,125 | 5,550,625 | 277,531 | 74,449,375 |
| 5th year... | 20,000,000 | 100,000,000 | 2,077,531 | 7,628,156 | 381,408 | 92,371,844 |

A full consideration of this subject, in all its details, has led Dr Hamilton to the conclusion, that this first mode of raising the supplies during war, viz. by diminishing the amount of the annual loans, and stopping the purchases of the Commissioners in the market, would be more economical, and that it ought therefore to be adopted. In the first place, all the expenses of agency would be saved; in the second, the premium usually obtained by the contractor for the loan would be saved on that part of it which is repurchased by the Commissioners in the open market. It is true that the stocks may fall as well as rise between the time of contracting for the loan and the time of the purchases made by the Commissioners, and therefore, in some cases, the public may gain by the present arrangement; but as these chances are equal, and a certain advantage is given to the loan contractor, to induce him to advance his money, independently of all contingency of future price, the public now give this advantage on the larger sum instead of on the smaller. On an average of years this cannot fail to amount to a very considerable sum. But both these objections would be obviated, if the clause in the original sinking fund bill, authorising the Commissioners to subscribe to any loan for the public service, to the amount of the annual fund which they have to invest, were uniformly complied with. This is the mode which was for several years strongly urged by Mr Grenfell, and it is far preferable to that which Dr Hamilton recommends. Dr Hamilton and Mr Grenfell both agree, that in time of war, when the expenditure exceeds the revenue, and when therefore we are annually increasing our debt, it is a useless operation to buy a comparatively

small quantity of stock in the market, while we are at the same time under the necessity of making large sales: but Dr Hamilton would not keep the sinking fund as a separate fund; Mr Grenfell would, and would have it increased with our debt by some known and fixed rules. We agree with Mr Grenfell. If a loan of 20 millions is to be raised annually, while there is in the hands of the Commissioners 10 millions which they annually receive, the obvious and simple operation should be really to raise only 10 millions by loan; but there is a convenience in calling it 20 millions, and allowing the Commissioners to subscribe 10 millions. All the objections of Dr Hamilton are by these means removed; there will be no expense for agency; there will be no loss on account of any difference of price at which the public sell and buy. By calling the loan 20 millions the public will be induced more easily to bear the taxes which are necessary for the interest and sinking fund of 20 millions. Call the loan only 10 millions, abolish during the war the very name of the sinking fund in all your public accounts, and it would be difficult to show to the people the expediency of providing 1,200,000*l.* per annum by additional taxation, for the interest of a loan of 10 millions. The sinking fund is therefore useful as an engine of taxation, and if the country could depend on ministers, that it would be faithfully devoted to the purposes for which it was established, namely, to afford at the termination of war a clear additional surplus revenue beyond expenditure, in proportion to the addition made to the debt, it would be wise and expedient to keep it as a separate fund, subject to fixed rules and regulations.

We shall presently inquire whether there can be any such dependence, and therefore whether the sinking fund is not an instrument of mischief and delusion, and really tending rather to increase our debt and burdens than to diminish them.

It is objected both to Dr Hamilton's and Mr Grenfell's projects, that the disadvantages which they mention are trifling in degree, and are more than compensated by the steadiness which is given to the market by the daily purchases of the Commissioners; that the money which those purchases throw into the market is a resource on which bankers and others, who may suddenly want money, with certainty rely.

Those who make this objection forget, that if, by the adoption of this plan, a daily purchaser is withdrawn from the market, so also is a daily seller. The minister gives now to one party 10 millions of money to invest in stock, and to another party as much stock as 10 millions costs to sell, and as the instalments on the loan are paid monthly, it may fairly be said that the supply is as regular as the demand. It cannot be doubted too, that a loan of 20 millions is negotiated on worse terms than one of 10. It is true that no more stock will remain in the market at the end of the year, whether the one or the other sum be raised by loan, but

for a time the contractor must make a large purchase, and he must wait before he can make his sale of 10 millions to the Commissioners. He is induced then to sell much more largely before the contract, which cannot fail to affect the market price, and it must be recollected, that it is the market price on the day of bidding for the loan which governs the terms on which the loan is negotiated. It is looked to both by the minister who sells and the contractor who purchases. The experiment on Mr Grenfell's suggestion was tried for the first time in 1819; the sum required by Government was 24 millions, to which the Commissioners subscribed 12 millions. In lieu of a loan of 24 millions from the contractor, there was one only of 12 millions, and as soon as this arrangement was known, previous to the contract, the stocks rose to 4 or 5 per cent., and influenced the terms of the loan in that degree. The reason was, that a preparation had been made for 24 or 30 millions loan, and as soon as it was known that it would be for 12 millions only a part of the stock sold was repurchased. Another advantage attending the smaller loan is, that 800*l.* per million, which is paid to the Bank for management of the loan, is saved on the sum subscribed by the Commissioners.

Dr Hamilton, in another part of his work, observes, "If the sinking fund could be conducted without loss to the public, or even if it were attended with a moderate loss, it would not be wise to propose an alteration of a system which has gained the confidence of the public, and which points out a rule of taxation that has the advantage at least of being steady. If that rule be laid aside, our measures of taxation might become entirely loose."

"The means, and the only means, of restraining the progress of national debt, are saving of expenditure and increase of revenue. Neither of these has a necessary connexion with a sinking fund. But if they have an eventual connexion, and if the nation, impressed with a conviction of the importance of a system established by a popular minister has, in order to adhere to it, adopted measures either of frugality in expenditure, or exertion in raising taxes, which it would not otherwise have done, the sinking fund ought not to be considered as inefficient, and its effects may be of great importance."

It will not, we think, admit of a doubt, that if Mr Pitt's sinking fund, as established in 1792, had been always fairly acted upon—if, for every loan, in addition to the war-taxes, the interest, and a 1 per cent. sinking fund had been invariably supplied by annual taxes—we should have made rapid progress in the extinction of debt. The alteration in principle which was made in the sinking fund by the act of 1802 was, in our opinion, a judicious one: it provided that no part of the sinking fund, neither that which arose from the original million, with its addition of 200,000*l.* per annum, nor that which arose from the 1 per cent. raised for the loans since 1792, should be applicable to the public service till the whole of

the debt then existing was redeemed. We should have been disposed to extend this principle further, and to make a provision, that no part of the sinking fund should be applicable to the public service until the whole of the debt then existing, *and subsequently to be created*, should be redeemed. We do not think that there is much weight in the objection to this clause, which was made to it by Lord Henry Petty in 1807, and referred to and more strongly urged by Mr Vansittart in 1813. The noble Lord said, "I need hardly press upon the consideration of the committee all the evils likely to result from allowing the sinking fund to accumulate without any limit, for the nation would be exposed by that accumulation to the mischief of having a large portion of capital taken at once out of the market, without any adequate means of applying it, which would of course be deprived of its value.

"This evil must appear so serious to any man who contemplates its character, that I have no doubt it will be felt, however paradoxical it may seem, that the redemption of the whole national debt at once would be productive of something like national bankruptcy; for the capital would be equivalent almost to nothing, while the interest he had before derived from it would be altogether extinguished. The other evils which would arise from, and which must serve to demonstrate the mischievous consequence of a prompt discharge of the national debt, I will show presently. Different arrangements were adopted in the further provisions made on the subject of the sinking fund in 1792 and in 1802. By the first the sinking fund of 1 per cent., which was thenceforward to be provided for every new loan, was made to accumulate at compound interest, until the whole of the debt created by such new loan should be extinguished. And by the second arrangement, all the various sinking funds existing in 1802 were consolidated, and the whole were appropriated to accumulate at compound interest until the discharge of the whole of the debt also existing in 1802. But the debt created since 1802, amounting to about 100 millions of nominal capital, is still left subject to the act of 1792, which provides for each separate loan a sinking fund of only 1 per cent. on the nominal capital. The plan of 1802, engrafted on the former acts of 1786 and 1792, provided for the still more speedy extinction of the debt to which it applied; but it would postpone all relief from the public burdens to a very distant period (computed in 1802 to be from 1834 to 1844); and it would throw such large and disproportionate sums into the money market in the latter years of its operation, as might produce a very dangerous depreciation of the value of money. Many inconveniences might also arise from the sudden stop which would be put to the application of those sums when the whole debt should have been redeemed, and from the no less sudden change in the price of all commodities, which must follow from taking off at one and the same moment taxes to an extent probably then much exceeding 30 millions.

The fate of merchants, manufacturers, mechanics, and every description of dealers, in such an event, must be contemplated by every thinking man with alarm; and this applies to my observation respecting a national bankruptcy; for, should the national debt be discharged, and such a weight of taxation taken off at once, all the goods remaining on hand would be, comparatively speaking, of no value to the holders, because, having been purchased or manufactured while such taxation prevailed, they must be undersold by all those who might manufacture the same kind of goods after such taxation had ceased. These objections were foreseen, and to a certain degree acknowledged, at the time when the act of 1802 was passed, and it was then answered, that whenever the danger approached it might be obviated by subsequent arrangements." A great many of these objections appear to us to be chimerical, but, if well founded, we agree with the latter part of the extract, "whenever the danger approached it might be obviated by subsequent arrangements." It was not necessary to legislate in 1807 or in 1813 for a danger which could not happen till between 1834 and 1844. It was not necessary to provide against the evils which would arise from a plethora of wealth at a remote period, when our real difficulty was how to supply our immediate and pressing wants.

What are the evils apprehended from the extravagant growth of the sinking fund towards the latter years of its existence? Not that taxation will be increased, because the growth of the sinking fund is occasioned by dividends on stock purchased, but, first, that capital will be returned too suddenly into the hands of the stockholder, without his having any means of deriving a revenue from it; and, secondly, that the remission of taxes, to the amount probably of 30 millions, will have a great effect on the prices of particular commodities, and will be very pernicious to the interest of those who may deal in or manufacture such commodities.

It is obvious that the Commissioners have no capital. They receive quarterly or daily certain sums, arising from the taxes, which they employ in the redemption of debt. One portion of the people pay what another portion receive. If the payers employed the sums paid as capital, that is to say, in the production of raw produce, or manufactured commodities, and the receivers, when they received it, employed it in the same manner, there would be little variation in the annual produce. A part of that produce might be produced by A instead of by B: not that even this is a necessary consequence; for A, when he received the money for his debt, might lend it to B, and might receive from him a portion of the produce for interest, in which case B would continue to employ the capital as before. On the supposition, then, that the sinking fund is furnished by capital and not by revenue, no injury would result to the community, however large that fund might be; there might or might not be a transfer of employments, but the annual

produce, the real wealth of the country, would undergo no deterioration, and the actual amount of capital employed would neither be increased nor diminished. But if the payers of taxes, for the interest and sinking fund of the national debt, paid them from revenue, then they would retain the same capital as before in active employment; and as this revenue, when received by the stockholder, would be by him employed as capital, there would be, in consequence of this operation, a great increase of capital; every year an additional portion of revenue would be turned into capital, which could be employed only in furnishing new commodities to the market. Now, the doubts of those who speak of the mischievous effects of the great accumulation of the sinking fund, proceed from an opinion they entertain, that a country may possess more capital than it can beneficially employ, and that there may be such a glut of commodities that it would be impossible to dispose of them on such terms as to secure to the producers any profits on their capitals. The error of this reasoning has been made manifest by M. Say, in his able work, *Economie Politique*, and afterwards by Mr Mill, in his excellent reply to Mr Spence, the advocate of the doctrine of the Economistes. They show that demand is only limited by production; whoever can produce has a right to consume, and he will exercise his privilege to the greatest extent. They do not deny that the demand for particular commodities is limited, and therefore they say there may be a glut of such commodities; but in a great and civilized country, wants, either for objects of necessity or of luxury, are unlimited, and the employment of capital is of equal extent with our ability of supplying food and necessaries for the increasing population, which a continually augmenting capital would employ. With every increased difficulty of producing additional supplies of raw produce from the land, corn, and other necessaries of the labourer, would rise; hence wages would rise. A real rise of wages is necessarily followed by a real fall of profits, and therefore when the land of a country is brought to the highest state of cultivation, when more labour employed upon it will not yield in return more food than what is necessary to support the labourer so employed, that country is come to the limit of its increase both of capital and population.

The richest country in Europe is yet far distant from that degree of improvement; but if any had arrived at it, by the aid of foreign commerce, even such a country could go on for an indefinite time increasing in wealth and population; for the only obstacle to this increase would be the scarcity, and consequent high value, of food and other raw produce. Let these be supplied from abroad in exchange for manufactured goods, and it is difficult to say where the limit is at which you would cease to accumulate wealth, and to derive profit from its employment. This is a question of the utmost importance in political economy. We hope that the little we have said on the subject will be sufficient to induce those who

wish clearly to understand the principle, to consult the works of the able authors whom we have named, to which we acknowledge ourselves so much indebted. If these views are correct, there is then no danger that the accumulated capital which a sinking fund under particular circumstances might occasion, would not find employment, or that the commodities which it might be made to produce would not be beneficially sold, so as to afford an adequate profit to the producers. On this part of the subject it is only necessary to add, that there would be no necessity for stockholders to become farmers or manufacturers. There is always to be found in a great country a sufficient number of responsible persons, with the requisite skill, ready to employ the accumulated capital of others, and to pay to them a share of the profits, and which in all countries is known by the name of interest for borrowed money.

The second objection to the indefinite increase of the sinking fund remains now to be noticed. By the remission of taxes suddenly to the amount probably of 30 millions per annum, a great effect would be produced on the price of goods. "The fate of merchants, manufacturers, mechanics, and every description of dealers, in such an event, must be contemplated by every thinking man with alarm; for should the national debt be discharged, and such a weight of taxation taken off at once, all the goods remaining on hand would be, comparatively speaking, of no value to the holders, because, having been purchased or manufactured while such taxation prevailed, they must be undersold by all those who might manufacture the same kind of goods after such taxation had ceased." It is only, then, on the supposition that merchants, manufacturers, and dealers, would be affected as above described, that any evil would result from the largest remission of taxes. It would not of course be said, that by remitting a tax of 5*l.* to A, 10*l.* to B, 100*l.* to C, and so on, any injury would be done to them. If they added these different sums to their respective capitals, they would augment their permanent annual revenue, and would be contributing to the increase of the mass of commodities, thereby adding to the general abundance. We have already, we hope, successfully, shown that an augmentation of capital is neither injurious to the individual by whom it is saved, nor to the community at large; its tendency is to increase the demand for labour, and consequently the population, and to add to the power and strength of the country. But they will not add these respective sums to their capitals; they will expend them as revenue! The measure cannot be said to be either injurious to themselves or to the community on that account. They annually contributed a portion of their produce to the stockholder in payment of debt, who immediately employed it as capital; that portion of produce is now at their own disposal; they may consume it themselves if they please. A farmer who used to sell a portion of his corn

for the particular purpose of furnishing this tax, may consume this corn himself; he may get the distiller to make gin of it, or the brewer to turn it into beer, or he may exchange it for a portion of the cloth which the clothier, who is now released from the tax as well as the farmer, is at liberty to dispose of for any commodity which he may desire. It may indeed be said, where is all this cloth, beer, gin, &c., to come from; there was no more than necessary for the general demand before this remission of taxes; if every man is now to consume more, from whence is this supply to be obtained? This is an objection of quite an opposite nature to that which was before urged. Now, it is said there would be too much demand and no additional supply; before, it was contended that the supply would be so great that no demand would exist for the quantity supplied. One objection is no better founded than the other. The stockholders, by previously receiving the payment of their debt, and employing the funds they received productively, or lending them to some other persons who would so employ them, would produce the very additional commodities which the society at large would have it in their power to consume. There would be a general augmentation of revenue, and a general augmentation of enjoyment; and it must not for a moment be supposed that the increased consumption of one part of the people would be at the expense of another part. The good would be unmixed, and without alloy. It remains, then, only to consider the injury to traders from the fall in the price of goods; and the remedy against this appears to be so very simple, that it surprises us that it should ever have been urged as an objection. In laying on a new tax, the stock in hand of the article taxed is commonly ascertained; and, as a measure of justice, the dealer in such article is required to pay the imposed tax on his stock. Why may not the reverse of this be done? Why may not the tax be returned to each individual on his stock in hand, whenever it shall be thought expedient to take off the tax from the article which he manufactures, or in which he deals? It would only be necessary to continue the taxes for a very short time for this purpose. On no view of this question can we see any validity in the arguments which we have quoted, and which were so particularly insisted on by Mr Vansittart.

There are some persons who think that a sinking fund, even when strictly applied to its object, is of no national benefit whatever. The money which is contributed, they say, would be more productively employed by the payers of the taxes than by the commissioners of the sinking fund. The latter purchase stock with it, which probably does not yield 5 per cent.; the former would obtain from the employment of the same capital much more than 5 per cent., consequently the country would be enriched by the difference. There would be in the latter case a larger nett supply of the produce of our land and labour, and that is the fund from which ultimately all our expenditure must be drawn. Those who maintain

this opinion do not see that the commissioners merely receive money from one class of the community, and pay it to another class, and that the real question is, Which of these two classes will employ it most productively? Forty millions per annum are raised by taxes, of which 20 millions, we will suppose, is paid for sinking fund, and 20 millions for interest of debt. After a year's purchase is made by the commissioners, this 40 millions will be divided differently; 19 millions will be paid for interest, and 21 millions for sinking fund; and so from year to year, though 40 millions is always paid on the whole, a less and less portion of it will be paid for interest, and a larger portion for sinking fund, till the commissioners have purchased the whole amount of stock, and then the whole 40 millions will be in the hands of the commissioners. The sole question, then, with regard to profit is, whether those who pay this 40 millions, or those who receive it, will employ it most productively; the commissioners, in fact, never employing it all, their business being to transfer it to those who will employ it. Now, of this we are quite certain, that all the money received by the stockholder in return for his stock must be employed as capital; for if it were not so employed, he would be deprived of his revenue, on which he had habitually depended. If, then, the taxes which are paid towards the sinking fund be derived from the revenue of the country, and not from its capital, by this operation a portion of revenue is yearly realised into capital, and consequently the whole revenue of the society is increased; but it might have been realised into capital by the payer of the tax if there had been no sinking fund, and he had been allowed to retain the money to his own use. It might so, and if it had been so disposed of, there can be no advantage in respect to the accumulation of the wealth of the whole society by the establishment of the sinking fund; but it is not so probable that the payer of the tax would make this use of it as the receiver. The receiver, when he gets paid for his stock, only substitutes one capital for another; and he is accustomed to look to his capital for all his yearly income. The payer will have all that he paid in addition to his former revenue; if the sinking fund be discontinued he may indeed realise it into capital, but he may also use it as revenue, increasing his expenditure on wine, houses, horses, clothes, &c. The payer might, too, have paid it from his capital; and therefore the employment of one capital might be substituted for another. In this case, too, no advantage arises from the sinking fund, as the national wealth would accumulate as rapidly without it as with it; but if any portion of the taxes paid expressly for the sinking fund be paid from revenue, and which, if not so paid, would have been expended as revenue, then there is a manifest advantage in the sinking fund, as it tends to increase the annual produce of our land and labour; and as we cannot but think that this would be its operation, we are clearly of opinion that a sinking

fund, honesty applied, is favourable to the accumulation of wealth.

Dr Hamilton has followed Dr Price in insisting much on the disadvantage of raising loans during war in a 3 per cent. stock, and not in a 5 per cent. stock. In the former, a great addition is made to the nominal capital, which is generally redeemed during peace at a greatly advanced price. Three per cents. which were sold at 60 will probably be repurchased at 80, and may come to be bought at 100; whereas in 5 per cents. there would be little or no increase of nominal capital, and as all the stocks are redeemable at par, they would be paid off with very little loss. The correctness of this observation must depend on the relative prices of these two stocks. During the war in 1798, the 3 per cents. were at 50, while the 5 per cents. were at 73; and at all times the 5 per cents. bear a very low relative price to the 3 per cents. Here, then, is one disadvantage to be put against another, and it must depend upon the degree in which the prices of the 3 per cents. and 5 per cents. differ, whether it be more desirable to raise the loan in the one or in the other. We have little doubt, that during many periods of the war, there would have been a decided disadvantage in making the loan in 5 per cent. stock in preference to 3 per cent. stock. The market in 5 per cent. stock, too, is limited; a sale cannot be forced in it without causing a considerable fall, a circumstance known to the contractors, and against which they would naturally take some security in the price which they bid for a large loan if in that stock. A premium of 2 per cent. on the market price may appear to them sufficient to compensate them for their risk in a loan in 3 per cent. stock; they may require one of 5 per cent. to protect them against the dangers they apprehend from taking the same loan in a 5 per cent. stock.

II. After having duly considered the operation of a sinking fund derived from annual taxes, we come now to the consideration of the best mode of providing for our annual expenditure, both in war and peace; and further, to examine whether a country can have any security that a fund raised for the purpose of paying debt will not be misapplied by ministers, and be really made the instrument for creating new debt, so as never to afford a rational hope that any progress whatever will permanently be made in the reduction of debt.

Suppose a country to be free from debt, and a war to take place which should involve it in an annual additional expenditure of 20 millions—there are three modes by which this expenditure may be provided; first, taxes may be raised to the amount of 20 millions per annum, from which the country would be totally freed on the return of peace; or, secondly, the money might be annually borrowed and funded, in which case, if the interest agreed upon was 5 per cent., a perpetual charge of 1 million per annum taxes would be incurred for the first year's expense, from which there would be

no relief during peace, or in any future war,—of an additional million for the second year's expense, and so on for every year that the war might last. At the end of twenty years, if the war lasted so long, the country would be perpetually encumbered with taxes of 20 millions per annum, and would have to repeat the same course on the recurrence of any new war. The third mode of providing for the expenses of the war would be to borrow annually the 20 millions required as before, but to provide by taxes a fund, in addition to the interest, which, accumulating at compound interest, should finally be equal to the debt. In the case supposed, if money was raised at 5 per cent., and a sum of 200,000*l.* per annum in addition to the million for interest were provided, it would accumulate to 20 millions in forty-five years; and by consenting to raise 1,200,000*l.* per annum by taxes for every loan of 20 millions, each loan would be paid off in forty-five years from the time of its creation; and in forty-five years from the termination of the war, if no new debt were created, the whole would be redeemed, and the whole of the taxes would be repealed.

Of these three modes we are decidedly of opinion that the preference should be given to the first. The burdens of the war are undoubtedly great during its continuance, but at its termination they cease altogether. When the pressure of the war is felt at once, without mitigation, we shall be less disposed wantonly to engage in an expensive contest, and if engaged in it, we shall be sooner disposed to get out of it, unless it be a contest for some great national interest. In point of economy there is no real difference in either of the modes, for 20 millions in one payment, 1 million per annum for ever, or 1,200,000*l.* for forty-five years, are precisely of the same value; but the people who pay the taxes never so estimate them, and therefore do not manage their private affairs accordingly. We are too apt to think that the war is burdensome only in proportion to what we are at the moment called to pay for it in taxes, without reflecting on the probable duration of such taxes. It would be difficult to convince a man possessed of 20,000*l.*, or any other sum, that a perpetual payment of 50*l.* per annum was equally burdensome with a single tax of 1000*l.* He would have some vague notion that the 50*l.* per annum would be paid by posterity, and would not be paid by him; but if he leaves his fortune to his son, and leaves it charged with this perpetual tax, where is the difference whether he leaves him 20,000*l.* with the tax, or 19,000*l.* without it? This argument of charging posterity with the interest of our debt, or of relieving them from a portion of such interest, is often used by otherwise well informed people, but we confess we see no weight in it. It may indeed be said that the wealth of the country may increase, and as a portion of the increased wealth will have to contribute to the taxes, the proportion falling on the present amount of wealth will be less, and thus posterity will contribute to our present expenditure. That

this may be so is true, but it may also be otherwise; the wealth of the country may diminish, individuals may withdraw from a country heavily taxed, and therefore the property retained in the country may pay more than the just equivalent which would at the present time be received from it. That an annual tax of 50*l.* is not deemed the same in amount as 1000*l.* ready money, must have been observed by every body. If an individual were called upon to pay 1000*l.* to the income-tax, he would probably endeavour to save the whole of it from his income; he would do no more if, in lieu of this war-tax, a loan had been raised, for the interest of which he would have been called upon to pay only 50*l.* income-tax. The war-taxes, then, are more economical, for when they are paid an effort is made to save to the amount of the whole expenditure of the war, leaving the national capital undiminished. In the other case, an effort is only made to save to the amount of the interest of such expenditure, and therefore the national capital is diminished in amount. The usual objection made to the payment of the larger tax is, that it could not be conveniently paid by manufacturers and landholders, for they have not large sums of money at their command. We think that great efforts would be made to save the tax out of their income, in which case they could obtain the money from this source; but suppose they could not, what should hinder them from selling a part of their property for money, or of borrowing it at interest? That there are persons disposed to lend is evident from the facility with which Government raises its loans. Withdraw this great borrower from the market, and private borrowers would be readily accommodated. By wise regulations and good laws the greatest facilities and security might be afforded to individuals in such transactions. In the case of a loan A advances the money, and B pays the interest, and every thing else remains as before. In the case of war-taxes A would still advance the money and B pay the interest, only with this difference, he would pay it directly to A; now he pays it to Government, and Government pays it to A.

These large taxes, it may be said, must fall on property, which the smaller taxes now do not exclusively do. Those who are in professions, as well as those who live from salaries and wages, and who now contribute annually to the taxes, could not make a large ready money payment, and they would therefore be benefited at the expense of the capitalist and landholder. We believe that they would be very little, if at all benefited by the system of war-taxes. Fees to professional men, salaries, and wages, are regulated by the prices of commodities, and by the relative situation of those who pay and of those who receive them. A tax of the nature proposed, if it did not disturb prices, would, however, change the relation between these classes, and a new arrangement of fees, salaries, and wages would take place, so that the usual level would be restored.

The reward that is paid to professors, &c., is regulated, like

every thing else, by demand and supply. What produces the supply of men, with certain qualifications, is not any particular sum of money, but a certain relative position in society. If you diminish, by additional taxes, the incomes of landlords and capitalists, leaving the pay of professions the same, the relative position of professions would be raised—an additional number of persons would therefore be enticed into those lines, and the competition would reduce the pay.

The greatest advantage that would attend war-taxes would be the little permanent derangement that they would cause to the industry of the country. The prices of our commodities would not be disturbed by taxation, or if they were, they would only be so during a period when every thing is disturbed by other causes during war. At the commencement of peace every thing would be at its natural price again, and no inducement would be afforded to us by the direct effect, and still less by the indirect effect of taxes on various commodities, to desert employments in which we have peculiar skill and facilities, and engage in others in which the same skill and facilities are wanting. In a state of freedom every man naturally engages himself in that employment for which he is best fitted, and the greatest abundance of products is the result. An injudicious tax may induce us to import what we should otherwise have produced at home, or to export what we should otherwise have received from abroad; and in both cases we shall receive, besides the inconvenience of paying the tax, a less return for a given quantity of our labour than what that labour would, if unfettered, have produced. Under a complicated system of taxation it is impossible for the wisest legislature to discover all the effects, direct and indirect, of its taxes; and if it cannot do this, the industry of the country will not be exerted to the greatest advantage. By war-taxes we should save many millions in the collection of taxes. We might get rid of at least some of the expensive establishments, and the army of officers which they employ would be dispensed with. There would be no charges for the management of debt. Loans would not be raised at the rate of 50*l.* or 60*l.* for a nominal capital of 100*l.*, to be repaid at 70*l.*, 80*l.*, or possibly at 100*l.*; and, perhaps, what is of more importance than all these together, we might get rid of those great sources of the demoralization of the people, the Customs and Excise. In every view of this question we come to the same conclusion, that it would be a great improvement in our system for ever to get rid of the practice of funding. Let us meet our difficulties as they arise, and keep our estates free from permanent encumbrances, of the weight of which we are never truly sensible till we are involved in them past remedy.

We are now to compare the other two modes of defraying the expenses of a war, one by borrowing the capital expended, and providing annual taxes permanently for the payment of the interest;

the other by borrowing the capital expended, and, besides providing the interest by annual taxes, raising by the same mode, an additional revenue (and which is called the sinking fund), with a view, within a certain determinate time, to redeem the original debt, and get rid entirely of the taxes.

Under the firm conviction that nations will at last adopt the plan of defraying their expenses, ordinary and extraordinary, at the time they are incurred, we are favourable to every plan which shall soonest redeem us from debt; but then we must be convinced that the plan is effective for the object. This, then, is the place to examine whether we have or can have any security for the due application of the sinking fund to the payment of debt.

When Mr Pitt, in 1786, established the sinking fund, he was aware of the danger of entrusting it to ministers and Parliament; and therefore provided that the sums applicable to the sinking fund should be paid by the Exchequer into the hands of commissioners, by quarterly payments, who should be required to invest equal sums of money in the purchase of stock, on four days in each week, or about fifty days in each quarter. The commissioners named were, the Speaker of the House of Commons, the Chancellor of the Exchequer, the Master of the Rolls, the Accountant-General of the Court of Chancery, and the Governor and Deputy-Governor of the Bank. He thought that, under such management, there could be no misapplication of the funds, and he thought correctly, for the commissioners have faithfully fulfilled the trust reposed in them. In proposing the establishment of a sinking fund to Parliament in 1786, Mr Pitt said, "With regard to preserving the fund to be invariably applied to the diminution of the debt inalienable, it was the essence of his plan to keep that sacred, and most effectually so in time of war. He must contend, that to suffer the fund at any time, or on any pretence, to be diverted from its proper object, would be to ruin, defeat, and overturn his plan. He hoped, therefore, when the bill he should introduce should pass into a law, that house would hold itself solemnly pledged not to listen to a proposal for its repeal on any pretence whatever."

"If this million, to be so applied, is laid out with its growing interest, it will amount to a very great sum in a period that is not very long in the life of an individual, and but an hour in the existence of a great nation; and this will diminish the debt of this country so much as to prevent the exigencies of war from raising it to the enormous height it has hitherto done. In the period of twenty-eight years, the sum of a million, annually improved, would amount to 4 millions per annum; but care must be taken that this fund be not broken in upon: *this has hitherto been the bane of this country;* for if the original sinking fund had been properly preserved, it is easy to be proved that our debts, at this moment, would not have been very burdensome: *this has hitherto been in vain endeavoured to be prevented by acts of Parliament:* the minister has uniformly, when

it suited his convenienee, gotten hold of this sum, whieh ought to have been regarded as most saered. What, then, is the way of preventing this? The plan I mean to propose is this, that this sum be vested in certain commissioners, to be by them applied quarterly to buy up stock; by this means, no sum so great will ever be ready to be seized upon on any occasion, and the fund will go on without interruption. Long and very long has this eountry struggled under its heavy load, without any prospect of being relieved; but it may now look forward to an objeet upon which the existenee of this eountry depends; it is therefore proper it should be fortified as mueh as possible against alienation. By this manner of paying 250,000*l.* quarterly into the hands of commissioners, it would make it impossible to take it by stealth; and the advantage would be too well felt ever to suffer a publie aet for that purpose. A minister could not have the confidenee to eome to this house and desire the repeal of so beneficial a law, whieh tended so directly to relieve the people from burden."

Mr Pitt flattered himself most strangely, that he had found a remedy for the diffieulty whieh "had hitherto been the bane of this eountry:" he thought he had diseovered means for preventing "ministers, when it suited their eonvenience, from getting hold of this sum, whieh ought to be regarded as most saered." With the knowledge of Parliament which he had, it is surprising that he should have relied so firmly on the resistanee whieh the House of Commons would offer to any plan of ministers for violating the sinking fund. Ministers have never desired the partial repeal of this law, without obtaining a ready eomplianee from Parliament.

We have already shown, that in 1807, one Chaneellor of the Exehequer proposed to relieve the eountry from taxation, with a very slight exception, for several years together, while we were, during war, keeping up, if not inereasing, our expenditure, and supplying it by means of annual loans. What is this but disposing of a fund whieh ought to have been regarded as most sacred?

In 1809 another Chaneellor of the Exchequer raised a loan, without raising any additional taxes to pay the interest of it, but pledged a portion of the war-taxes for that purpose, thereby rendering an addition to that amount neeessary to the loan of the following and every sueeeeding year. Was not this disposing of the sinking fund by stealth, and aeeumulating debt at eompound interest? Another Chaneellor of the Exehequer, in 1813, proposed a partial repeal of the law, by which 7 millions per annum of the sinking fund was plaeed at his disposal, and whieh he has employed in providing for the interest of new debt. This was done with the sanetion of Parliament, and, as we apprehend, in direet violation of all the laws which had before been passed regarding the sinking fund. But what has beeome of the remainder of this fund, after dedueting the 7 millions taken from it by the aet of 1813?* It should now

* Some of the following observations refer to the period when this article was origi nally composed.—Ed.

be 16 millions, and at that amount it was returned in the annual finance accounts last laid before Parliament. The finance committee appointed by the House of Commons did not fail to see that nothing can be deemed an efficient fund for the redemption of debt in time of peace, but such as arises from an excess of revenue above expenditure; and as that excess, under the most favourable view, was not quite 2 millions, they considered that sum as the real efficient sinking fund, which was now applicable to the discharge of debt. If the act of 1802 had been complied with, if the intentions of Mr Pitt had been fulfilled, we should now have had a clear excess of revenue of above 20 millions, applicable to the payment of the debt; as it is, we have 2 millions only, and if we ask ministers what has become of the remaining 18 millions, they show us an expensive peace establishment, which they have no other means of defraying but by drafts on this fund, or several hundred millions of 3 per cents., on which it is employed in discharging the interest. If ministers had not had such an amount of taxes to depend on, would they have ventured, year after year, to encounter a deficiency of revenue below expenditure, for several years together, of more than 12 millions? It is true that the measures of Mr Pitt locked it up from their immediate seizure, but they knew it was in the hands of the Commissioners, and presumed as much upon it, and justly, with the knowledge they had of Parliament, as if it had been in their own. They considered the Commissioners as their trustees, accumulating money for their benefit, and of which they knew that they might dispose whenever they should consider that the urgency of the case required it. They seem to have made a tacit agreement with the Commissioners, that they should accumulate 12 millions per annum at compound interest, while they themselves accumulated an equal amount of debt, also at compound interest. The facts are indeed no longer denied. In the last session of Parliament, for the first time, the delusion was acknowledged by ministers, after it had become manifest to every other person, but yet it is avowed to be their intention to go on with this nominal sinking fund, raising a loan every year for the difference between its real and nominal amount, and letting the Commissioners subscribe to it. On what principle this can be done it would be difficult to give any rational account. Perhaps it may be said that it would be a breach of faith to the stockholder to take away the sinking fund, but is it not equally a breach of faith if the Government itself sells to the Commissioners the greatest part of the stock which they buy? The stockholder wants something substantial and real to be done for him, and not any thing deceitful and delusive. Disguise it as you will, if of 14 millions to be invested by the Commissioners in time of peace, the stock which 12 millions will purchase is sold by the Government itself, which creates it for the very purpose of obtaining these 12 millions, and only stock for 2 millions is purchased in the market,

and no taxes for sinking fund or interest are provided for the 12 millions which Government takes; the result is precisely the same to the stockholder, and to every one concerned, as if the sinking fund was reduced to 2 millions. It is utterly unworthy of a great country to countenance such pitiful shifts and evasions.

The sinking fund, then, has, instead of diminishing the debt, greatly increased it. The sinking fund has encouraged expenditure. If, during war, a country spends 20 millions per annum, in addition to its ordinary expenditure, and raises taxes only for the interest, it will in twenty years accumulate a debt of 400 millions, and its taxes will increase to 20 millions per annum. If, in addition to the million per annum, taxes of 200,000*l.* were raised for a sinking fund, and regularly applied to the purchase of stock, the taxes, at the end of twenty years, would be 24 millions, and its debt only 342 millions; for 58 millions will have been paid off by the sinking fund; but if at the end of this period new debt shall be contracted, and the sinking fund itself, with all its accumulations, amounting to 6,940,000*l.*, be absorbed in the payment of interest on such debt, the whole amount of debt will be 538 millions, exceeding that which would have existed if there had been no sinking fund by 138 millions. If such an additional expenditure were necessary, provision should be made for it without any interference with the sinking fund. If, at the end of the war, there is not a clear surplus of revenue above expenditure of 6,940,000*l.* on the above supposition, there is no use whatever in persevering in a system which is so little adequate to its object. After all our experience, however, we are again toiling to raise a sinking fund; and in the last session of Parliament 3 millions of new taxes were voted, with the avowed object of raising the remnant of our sinking fund, now reduced to 2 millions, to 5 millions. Is it rash to prognosticate that this sinking fund will share the fate of all those which have preceded it? Probably it will accumulate for a few years, till we are engaged in some new contest, when ministers, finding it difficult to raise taxes for the interest of loans, will silently encroach on this fund; and we shall be fortunate if, in their next arrangement, we shall be able to preserve out of its wreck an amount so large as 2 millions.

It is, we think, sufficiently proved that no securities can be given by ministers that the sinking fund shall be faithfully devoted to the payment of debt, and without such securities we should be much better without such a fund. To pay off the whole, or a great portion of our debt, is, in our estimation, a most desirable object, if, at the same time, we acknowledged the evils of the funding system, and resolutely determined to carry on our future contests without having recourse to it. This cannot, or rather will not, be done by a sinking fund as at present constituted, nor by any other that we can suggest; but if, without raising any fund, the debt were paid by a tax on property, once for all it would effect its object. Its

operation might be completed in two or three years during peace, and if we mean honestly to discharge the debt, we do not see any other mode of accomplishing it. The objections to this plan are the same as those which we have already attempted to answer in speaking of war-taxes. The stockholders, being paid off, would have a large mass of property, for which they would be eagerly seeking employment. Manufacturers and landholders would want large sums for their payments into the Exchequer. These two parties would not fail to make an arrangement with each other, by which one party would employ their money, and the other raise it. They might do this by loan, or by sale and purchase, as they might think it most conducive to their respective interests; with this the State would have nothing to do. Thus, by one great effort, we should get rid of one of the most terrible scourges which was ever invented to afflict a nation; and our commerce would be extended without being subject to all the vexatious delays and interruptions which our present artificial system imposes upon it.

There cannot be a greater security for the continuance of peace, than the imposing on ministers the necessity of applying to the people for taxes to support a war. Suffer this sinking fund to accumulate during peace to any considerable sum, and very little provocation would induce them to enter into a new contest. They would know that, by a little management, they could make the sinking fund available to the raising of a new supply, instead of being available to the payment of the debt. The argument is now common in the mouths of ministers, when they wish to lay on new taxes, for the purpose of creating a new sinking fund, in lieu of one which they have just spent, to say, "It will make foreign countries respect us; they will be afraid to insult or provoke us, when they know that we are possessed of so powerful a resource." What do they mean by this argument, if the sinking fund be not considered by them as a war fund, on which they can draw in support of the contest? It cannot, at one and the same time, be employed in the annoyance of an enemy, and in the payment of debt. If taxes are, as they ought to be, raised for the expenses of a war, what facility will a sinking fund give to the raising of them? none whatever. It is not because the possession of a sinking fund will enable them to raise new and additional taxes that ministers prize it; for they know it will have no such effect; but because they know that they will be enabled to substitute the sinking fund in lieu of taxes, and employ it, as they have always done, in war, and providing interest for fresh debt. Their argument means this, or it means nothing, for a sinking fund does not necessarily add to the wealth and prosperity of a country; and it is on that wealth and prosperity that it must depend, whether new burdens can be borne by the people. What did Mr Vansittart mean in 1813, when he said that "the advantage which his new plan of finance would hereafter give, in furnishing a hundred millions in time of peace, as a fund against

the return of hostilities, was one of great moment. This would place an instrument of force in the hands of Parliament, which might lead to the most important results." "It might be objected by some, that keeping in reserve a large fund to meet the expenses of a new war, might be likely to make the Government of this country arrogant and ambitious, and therefore have a tendency unnecessarily to plunge us in new contests;" not a very unreasonable objection, we should think. How does Mr Vansittart answer it? "On this subject he would say, from long experience and observation, that it would be better for our neighbours to depend on the moderation of this country, than for this country to depend on them. He should not think the plan objectionable on this account. If the sums treasured up were misapplied by the arrogant or ambitious conduct of our Government, the blame must fall on the heads of those who misused it, not on those who put it into their hands for purposes of defence. They did their duty in furnishing the means of preserving the greatness and glory of the country, though those means might be used for the purposes of ambition, rapine, and desolation." These are very natural observations from the mouth of a minister; but we are of opinion that such a treasure would be more safe in the custody of the people, and that Parliament have something more to do than to furnish ministers with the means of preserving the greatness and glory of the country. It is their duty to take every security that the resources of the country are not misapplied "by the arrogant and ambitious conduct of our Government," or "used for the purposes of ambition, rapine, and desolation."

On the extraordinary assumption that there was any thing in Mr Vansittart's plan that would more effectually than the old plan allow 100 millions hereafter to be appropriated to the public service, Dr Hamilton has the following observations:—

"We are altogether at a loss to form a distinct conception of the *valuable treasure* here held forth. So soon as any stock is purchased by the commissioners, and stands invested in their name, a like amount of the public debt is in fact discharged. Whether a parliamentary declaration to the effect be made or not is only a matter of form. If the money remain invested in the name of the commissioners, no doubt it may be transferred again to purchasers in the stock exchange when war broke out anew; and money may be raised for the public in this manner. It is an application to the public to invest their capital in the purchase of this dormant stock." "It is true, that if the taxes imposed during war for the purpose of a sinking fund be continued after peace is restored, till a large sum (suppose 100,000,000*l.*) be vested in the hands of the Commissioners, the public, upon the renewal of the war, may spend to that amount without imposing fresh taxes,—an advantage," observes Mr Huskisson, "not only not exclusively belonging to this plan, but unavoidable under any plan of a sinking fund in time of peace."

Mr Vansittart ought to have said, "If our sinking fund should accumulate in time of peace to so large a sum that I can take 5 millions per annum from it, I can spend 100,000,000*l.* in a new war without coming to you for fresh taxes; the disadvantages of my plan are, that by now taking 7,000,000*l.* per annum from it, and making a provision for speedily, and at regular intervals, appropriating more of this fund to present objects, the sinking fund will be so much diminished that I cannot so soon, by a great many years, avail myself of the 5 millions for the purpose which I have stated."

# OBSERVATIONS

ON

# PARLIAMENTARY REFORM.

The manuscript of the following Essay on Parliamentary Reform was given by Mr Ricardo, a short time before his death, to Mr M'Culloch. The latter, not thinking it right that so important a paper should be withheld from the public, printed it in the *Scotsman* of the 24th of April 1824.

# OBSERVATIONS

ON

# PARLIAMENTARY REFORM.

---

A MONARCH, or any other ruler, wishes to have no other check on his actions but his own will, and would, if he could, reign despotically, uncontrolled by any other power. In every country of the world, some check, more or less strong, exists on the will of the Sovereign, even in those Governments which are supposed to be the most despotic. In Turkey, and at Algiers, the people or the army rise up in insurrection, and frequently depose and strangle one tyrant, and elevate another in his place, who is checked in his career by a dread of the same species of violence.

The only difference, in this point, between the Governments of countries which are called free and those which are called arbitrary, is in the organization of this check, and in the facility and efficacy with which it is brought to bear upon the will of the Sovereign. In England, the monarch's authority is checked by the fear of resistance, and the power of organizing and calling forth this resistance is said to be in the aristocracy and the people, through the medium of the two Houses of Parliament.

It is undoubtedly true that the monarch would not long venture to oppose the opinion decidedly expressed by the House of Commons, and therefore he may be said to be checked and controlled by those who appoint the House of Commons. All great questions are decided in the House of Commons; the House of Lords seldom gives any opposition to important measures to which the other House has given its sanction. Nor, when the constitution of that House is considered, is such opposition necessary, for the House of Commons is not appointed by the people, but by the Peers and the wealthy aristocracy of the country. The really efficient power of Government is, then, in the hands of the wealthy aristocracy, subject, indeed, to an irregular influence which I shall presently explain. What is the consequence of this?—A compromise between the aristocracy and the monarchy; and all the power and influence which Government gives are divided between them. The monarch has the appointment to all places of trust and profit—

to the ministry—to the army and navy—to the courts of law; he has also the power of appointing to many other lucrative situations, such as ambassadors, heads and subordinates of public offices, &c., &c. Notwithstanding this great power, his measures can be controlled by the House of Commons, and therefore, it is of importance to Government to get a majority in that House.

This is easily obtained by giving a portion of these lucrative places to those who have the choice of the majority of the House of Commons; accordingly, it is well known that no means are so effectual for obtaining situations of trust and profit from the Crown as the possession of parliamentary influence; and, as the appetite for lucrative places is insatiable, both in ministers and their followers, and the oligarchy and theirs, places are often created for the men, and others are frequently continued after they have become unnecessary, for the advantage solely of these favoured individuals. If, then, there were no other check on both these bodies, England would not have to boast of a better Government than what exists in those countries in which it is called despotic. But, happily, there is another check, and that a tolerably efficient one, which is with the people, and would not, without a violent struggle, be wrested from them. The check on this Government, which operates on behalf of the people, is the good sense and information of the people themselves, operating through the means of a free press, which controls not only the Sovereign and his ministers, but the aristocracy and the House of Commons, which is under its influence. This is the great safeguard of our liberties. Every transaction of the great functionaries of the State is, by means of the press, conveyed in two days to the extremities of the kingdom, and the alarm is sounded if any measure is adopted, or even proposed, which might in its tendency be hurtful to the community. This check, then, like others that we have been speaking of, resolves itself into the fear which Government and the aristocracy have of an insurrection of the people, by which their power might be overturned, and which alone keeps them within the bounds which now appear to arrest them. The press, amongst an enlightened and well-informed people, is a powerful instrument to prevent misrule, because it can quickly organise a formidable opposition to any encroachment on the people's rights, and, in the present state of information, perhaps there would not be found a minister who would be sufficiently daring to attempt to deprive us of it. This power, however, is irregular in its operation. It is not always easy to rouse the people to an active opposition to minor measures, which may be shown to be detrimental to their interests; neither is it powerful, on ordinary occasions, in getting a repeal of those laws, which, however detrimental, have been long in force; and therefore it is in a certain degree braved. In spite of the thunders of the press, men continue to be placed in Parliament, whose interests are often at direct variance with the interest of

the people. The offices of State, and the lucrative situations under Government, are not bestowed according to merit; bad laws continue to disgrace our statute-book, and good ones are rejected because they would interfere with particular interests; wars are entered into for the sake of private advantage, and the nation is borne down with great and unnecessary expenses. Experience proves that the liberty of the press is insufficient to correct or prevent these abuses, and that nothing can be effectual to that purpose but placing the check in a more regular manner in the people by making the House of Commons really and truly the representatives of the people. Of all the classes in the community the people only are interested in being well governed; on this point there can be no dispute or mistake. Good government may be contrary to the interests of the aristocracy, or to those of the monarch, as it may prevent them from having the same emoluments, advantage, or power, which they would have if Government was not busied about the happiness of the many, but chiefly concerned itself about the happiness of the few; but it can never be prejudicial to the general happiness.

If, then, we could get a House of Commons chosen by the people, excluding all those, whether high or low, who had interests separate and distinct from the general interest, we should have a controlling body whose sole business and duty it would be to obtain good government. It is not denied that, in innumerable instances, the interest of the aristocracy and that of the people will be the same, and therefore many good laws and regulations would be made if the aristocracy were to govern without control. The same may be said of the Monarch; but in many important instances they will also be opposed, and then it is that we shall look in vain for good laws and for good government. A reform in the House of Commons, then,—the extension of the elective franchise to all those against whom no plausible reason can be urged that they have, or suppose they have, interest contrary to the general interest, is the only measure which will secure liberty and good government on a solid and permanent foundation. This is so self-evident that one is surprised that an argument can be offered against it; but, to do the opponents of this measure justice, they do not advance any direct argument against it; their whole endeavour is to evade it.

A House of Commons such as you contend for, they say, would be a good, but how are you to obtain it? Has not the country flourished in spite of the imperfections you mention, and why would you wish to improve what is already demonstrated to be so good? The House of Commons is not chosen by the people generally, but it is chosen by men who have received a good and liberal education—whose characters are unimpeachable, and who are much better judges of what will conduce to the happiness of the people than they themselves are. By extending the franchise you open the door to anarchy, for the bulk of the people are interested, or

think they are so, in the equal division of property, and they would choose only such demagogues as held out the hope to them that such division should take place. To which it may be answered, that although it be true that the country has flourished with a House of Commons constituted as ours has been, it must be shown that such a constitution of it is favourable to the prosperity of the country, before such an argument can be admitted for its continuance. It is not sufficient to say that we have been successful, and therefore we should go on in the same course. The question to be asked is, notwithstanding our success, has there been nothing in our institutions to retard our progress? A merchant may flourish although he is imposed upon by his clerk, but it would be a worthless argument to persuade him to keep this clerk because he had flourished while he was in his employ. Whilst any evil can be removed, or any improvement adopted, we should listen to no suggestions so inconclusive as that we have been doing well. Such an argument is a bar to all progress in human affairs.

Why have we adopted the use of steam-engines? It might have been demonstrated that our manufactures had flourished without them, and why not let well enough alone? Nothing is well enough whilst anything better is within our reach; this is a fallacy which can only be advanced by the ignorant or designing, and can no longer impose on us. What signifies, too, the unimpeachable characters and the good education of those who choose the members of the House of Commons? Let me know what the state of their interests is, and I will tell you what measures they will recommend.

If this argument were good for any thing, we might get rid of all the checks and restraints of law, as far at least as they regarded a part of the community. Why ask from ministers an account of the public income and expenditure annually? Are they not men of good character and education?

What need of a House of Commons or of a House of Lords? Are they to restrain the Sovereign? Why should you not place the fullest reliance in his virtue and integrity?

Why fetter the judges by rules, and burden them with juries? Is it possible that such enlightened and good men could decide unjustly or corruptly? To keep men good you must as much as possible withdraw from them all temptation to be otherwise. The sanctions of religion, of public opinion, and of law, all proceed on this principle, and that State is most perfect in which all these sanctions concur to make it the interest of all men to be virtuous, which is the same thing as to say, to use their best endeavour to promote the general happiness.

The last point for consideration is the supposed disposition of the people to interfere with the rights of property. So essential does it appear to me, to the cause of good government, that the rights of property should be held sacred, that I would agree to deprive those of the elective franchise against whom it could justly be

alleged that they considered it their interest to invade them. But in fact it can be only amongst the most needy in the community that such an opinion can be entertained. The man of a small income must be aware how little his share would be if all the large fortunes in the kingdom were equally divided among the people. He must know that the little he would obtain by such a division could be no adequate compensation for the overturning of a principle which renders the produce of his industry secure. Whatever might be his gains after such a principle had been admitted, would be held by a very insecure tenure, and the chance of his making any future gains would be greatly diminished; for the quantity of employment in the country must depend, not only on the quantity of capital, but upon its advantageous distribution, and, above all, on the conviction of each capitalist that he will be allowed to enjoy unmolested the fruits of his capital, his skill, and his enterprise. To take from him this conviction is at once to annihilate half the productive industry of the country, and would be more fatal to the poor labourer than to the rich capitalist himself. This is so self-evident, that men very little advanced beyond the very lowest stations in the country cannot be ignorant of it; and it may be doubted whether any large number even of the lowest would, if they could, promote a division of property. It is the bugbear by which the corrupt always endeavour to rally those who have property to lose around them, and it is from this fear, or pretended fear, that so much jealousy is expressed of entrusting the least share of power to the people. But the objection, when urged against reform, is not an honest one, for, if it be allowed that those who have a sacred regard to the rights of property should have a voice in the choice of representatives, the principle is granted for which reformers contend. They profess to want only good government, and, as a means to such an end, they insist that the power of choosing members of Parliament should be given to those who cannot have an interest contrary to good government. If the objection made against reform were an honest one, the objectors would say how low in the scale of society they thought the rights of property were held sacred, and there they would make their stand. That class, and all above it, they would say, may fairly and advantageously be entrusted with the power which is wished to be given them, but the presumption of mistaken views of interest in all below that class would render it hazardous to entrust a similar power with them—it could not at least be safely done until we had more reason to be satisfied that, in their opinion, the interest of the community and that of themselves were identified on this important subject.

This concession would satisfy the reasonable part of the public. It is not universal suffrage as an end, but as a means, of good government, that the partisans of that measure ask it for. Give them the good government, or let them be convinced that you are

really in earnest in procuring it for them, and they will be satisfied, although you should not advance with the rapid steps that they think would be most advantageously taken. My own opinion is in favour of caution, and therefore I lament that so much is said on the subject of Universal Suffrage. I am convinced that an extension of the suffrage, far short of making it universal, will substantially secure to the people the good government they wish for, and therefore I deprecate the demand for the universality of the elective franchise; at the same time, I feel confident that the effects of the measure which would satisfy me would have so beneficial an effect on the public mind—would be the means of so rapidly increasing the knowledge and intelligence of the public, that, in a limited space of time after this first measure of reform were granted, we might, with the utmost safety, extend the right of voting for members of Parliament to every class of the people.

But it is intolerable, because the House of Commons is not disposed to go the full length of what is perhaps indiscreetly asked of them, that therefore they should refuse to grant any reformation of abuses whatever, that, against the plainest conviction, they should assert that a House of Commons, constituted as this is, is best calculated to give to the people the advantages of good government, and that they should continue to maintain that the best interests of the people are attended to, when it is demonstrated that they not only are not, but cannot be, whenever they are opposed to the interests of those who are in full possession of power, namely, the King, and the Oligarchy, who are bribed to support his government.

# SPEECH

ON THE

# PLAN OF VOTING BY BALLOT

This speech appeared originally in the *Scotsman* of the 17th of July 1824, being introduced by the following paragraph:—

"The following report of one of Mr Ricardo's speeches in Parliament—most probably the one he delivered on the 24th April 1823, in the debate on Lord John Russell's motion—written in his own hand, was found among his manuscripts subsequently to his death. His friends have kindly communicated it to us, and we now publish it verbatim from the manuscript, without any alteration of any kind whatever. Mr Ricardo was always a decided supporter of the plan of election by ballot; and he has here stated, with that brevity, clearness, and comprehensiveness of view peculiar to himself, the grounds on which he approved of that plan. We will not presume to say that Mr Ricardo has obviated all the objections that have been urged against the ballot; but every one will readily allow that his defence of it is able and ingenious, and that he has said almost all that can be said in its behalf."

# SPEECH.

Sir,—The general question of a reform in the representation of this House, has been so fully discussed, and so ably supported by many honourable gentlemen that have preceded me in the debate, that I shall not detain the House by offering any observations on it, but shall confine myself to the consideration of that part of the subject, which has been little noticed, but which, in my opinion, is of so much importance, that, without it, no substantial reform can be obtained:—I mean, Sir, the changing the present mode of open election for members of Parliament, and substituting in its room the secret mode, or ballot.

In order to appreciate the advantages which will result from the proposed change, it may not be improper to state, as briefly as possible, to the House, the inconveniences attending the present mode of election; that having the nature of the evil before them, they may be the better able to judge of the efficacy of the proposed remedy. By some, indeed, it may be thought a vain and useless occupation of the time of the House to recapitulate the evils of our present system, for it may with justice be asked, who amongst us is not acquainted with the bribery, the riots, the intoxication, and the immoralities of every description, which take place on the occasion of every general election? These disgusting facts are unfortunately too notorious, yet it may not be unuseful to submit them to the attention of the House.

The scenes which occur at such times, would disgrace a barbarous people. The reign of the law appears to cease, and impunity to be proclaimed for every species of violence. A rude and brutal populace, the offscourings of our population, surround the hustings, and heap every sort of insult and indignity on the candidate who happens not to enjoy their favour. Dirt, filth, and often stones, are thrown at him—the most unmanly attacks are made upon his person, and it is frequently a task of difficulty to his friends to protect him from the effects of their savage and brutal animosity.

Nor is it the candidate only that is thus exposed to their rage,

but every elector is applauded or hissed, caressed or furiously attacked, as he may favour or oppose by his vote, the favourite of the mob. Idleness and the neglect of work always follow in the train of an election—they are succeeded by debauchery and intoxication, and for a period the country suffers under all the evils of anarchy. I know that these violences are in almost all cases committed by the lowest of the mob, that they are not to be imputed to the electors themselves, but to the assemblage of the idle and disorderly which every great town affords, but the evil is not less serious on that account, and does not less imperiously call on us for a remedy.

These, however, constitute but one portion, and indeed a very inferior portion of the evil which attends the present mode of election. Bad as it is, if even at this price we obtained a Parliament freely chosen by the people, we should have some consolation, although it would be our duty to endeavour to retain the good, and get rid of what was bad in the system. But this consolation is not afforded us, and, in addition to the evil which I have already mentioned, we have the far greater one to guard against, which arises from the influence exercised over the voters at elections. Of what use is it to mark with precision how low in the scale of rank the right of voting for members of parliament shall commence, if you take no steps to secure to the electors the right which you propose to accord to them? It is the most cruel mockery to tell a man he may vote for A or B, when you know that he is so much under the influence of A, or the friends of A, that his voting for B would be attended with destruction to him. He cannot justly be said to have a vote, unless he have the free exercise of it without prejudice to his fortune. Is this the case at present? Is it not a delusion to say that every freeholder of 40s. a year has a vote for a member of Parliament, when in most cases he cannot vote as he pleases without ruin to himself? It is not he who has the vote, really and substantially, but his landlord, for it is for his benefit and interest that it is exercised on the present system. Of what advantage would be the reform that is proposed, of extending the elective franchise to all householders, or, as others recommend, to all males of twenty-one years of age, if this increased number of electors were to be, as they now are, completely under the influence of the same men, or of men having precisely the same views and interests as those who play so grand a part in returning members to Parliament? The more extended the suffrage the more influence would be possessed by peers and the wealthy aristocracy of the country, and therefore the more certainly should we have a Parliament which would be their representatives, and the advocates of their particular interests, and not of the interests of the great mass of the people. In many populous cities householders are now said to have votes for the representatives of their city; but are not the cases numerous in which they dare not openly exercise the right?

Is it to be expected that they will expose themselves to a resentment which will overwhelm them, whether it be from their best customers, the rich consumers, if they are shopkeepers,—the magistrates, if they are publicans,—their employers, if they are clerks, and in subordinate situations,—or any other class, who may be supposed to have an influence over their property? By extending the suffrage, an additional security is afforded against bribery, because the greater the number of electors the more difficult will it be to provide funds for the purpose of directly influencing votes by means of bribes. But it must not be forgotten that bribery is only one of the modes, and by no means the most efficacious mode, by which voters are influenced. Mr Bentham's sagacity did not fail to discover that terror was the great instrument of influence and corruption. Votes are more effectually secured by the fear of loss than by the hope of gain. Those whose characters afford security against the offering of bribes, and who would think themselves disgraced by a practice which is universally condemned, do not disdain to make use of the persuasive instrument of fear. In its operation it is silent—it is not necessary to proclaim to the voter the danger which he runs of disobliging his landlord, or patron; it is understood without explanation, and no one who hears me can doubt of its powerful effects on every occasion. Although, then, by extending the suffrage you weaken the corruptive effect of bribery, you increase that which is produced by alarm and fear, for in proportion as the fortunes of the voter are more humble, the more surely will he be under the influence of those who have the power to sway those fortunes. Happily a security can be found against this influence; but if it could not, I should deem that an improvement which should raise the qualification, and limit the number of voters; for the chance of finding an independent spirit in electors would be increased, if the qualification was raised to 100*l.* per annum, rather than if it continued as it is, or were lowered below 40s. These, then, are the evils against which we have to provide, and the House will readily perceive, that those which arise from riots, intoxication, and idleness, are of a different description from those which are the consequence of undue influence exercised over the minds, directly or indirectly, of the electors; and accordingly the bill before you offers two distinct remedies. To obviate the first evil, it is proposed to take the votes throughout the country on the same day, and, instead of the elections being for the whole of a country, and held in one single place, that votes be received in several districts at the same time. To obviate the second, it is proposed that the ballot, or the secret mode of election, be substituted for the open mode.

These two propositions are very distinct, and they should not be, as they often are, confounded; for one might be rejected, and the other adopted. Those, for example, who are of opinion that the public and noisy assemblage of the rabble about the hustings is

attended with benefits outweighing the evils which have been stated, might reject that clause which proposes to take the votes by districts, but might, nevertheless, adopt the other which requires that the election should be by ballot. The people might assemble about the hustings as they now do; they might listen, or not listen, to the speeches of the candidates, as their humour might dictate; they might show all the usual marks of their sympathy or disapprobation, and yet the voting might be secret; and, on the contrary, those who are in favour of open voting, might approve of votes being given in districts, although they rejected the ballot.

According to the best judgment which I can form on this important subject, we ought to adopt both these clauses. That respecting time and place of voting will give us sufficient security against the disgusting exhibitions and riotous proceedings which have hitherto attended elections. Through the medium of the press, the candidate may make known his pretensions; through the same channel, objections may be made to his principles, or to his former conduct—the press is open to all—and the candidates would no longer be subjected to an ordeal which is not a test of merit, but of endurance. Because a man has the honest ambition of representing a populous city in Parliament, must he make up his mind to endure all the insults which can be heaped upon him by the lowest of the rabble? It is said, that it is fit his claims should be examined into,—that without preparation he should be called upon immediately to explain what has been ambiguous in his former conduct;—what are his principles on the grand questions which are likely to be submitted to him; and, that he should be called upon to speak on any other matters which may be proposed to him. This might be useful if he presented himself before an impartial tribunal; but those who make this objection are bound to show that candidates on both sides are fairly listened to, and that even the semblance of justice is extended to them. One of the arguments now offered in favour of the borough system, and it is one of considerable weight, is, that without such boroughs, many men of merit would never be in Parliament—and why? because they are troubled with modesty, and with the feelings of gentlemen, which makes it intolerable to them to submit to the injustice, the insolence, and the insults of the lowest of the rabble. That we may be sure of the services of these men, then, I demand that this clause be adopted. These public meetings, it has been said, are useful in giving a tone to public feeling, and raising the lowest of the community in his own estimation, by making him feel that he has a share in the government of his country. Can he be said to have this share if he is without a vote? Does he show his importance by spitting at the candidate, by throwing dirt and filth in his face? This is not calculated to raise him in his own estimation; and if it be right that he should have a voice in the government of his country, give him that voice, and allow him to exercise

it legally, on the same terms with the first elector in the land, but do not delude us or him, by giving him the shadow, and calling it the substance of power!

The other clause, namely, that which establishes the ballot, appears to me to offer complete security against those evils which flow from the influence of power. If voting took place by ballot, all the influence now practised on voters would, in a great measure, cease; for, to what purpose would you threaten a man for the vote he should give, or how could you punish him for it when given, if, by the regulation, you were absolutely precluded from knowing for which candidate he voted? Establish the ballot, and every elector is from that moment in possession of a real, and not of an imaginary privilege. Of what use would it be to threaten a publican with the loss of his license, a farmer with the deprivation of his lease, a tradesman with the loss of your custom, when you can never know how he voted, unless he chose to communicate it to you? The elective franchise, if it should be thought expedient, might be extended. The very extension would secure you from direct bribery, for no fortune would be equal to bribe a nation of electors, and terror would cease to operate, for it would be in vain to endeavour to mark the victims. An honourable gentleman has said, that if the ballot were established, it would not prevent candidates, and the friends of candidates, from endeavouring to get the promise of votes; and then he observes that, if the electors keep their promises, there will be no advantage from the ballot, as they will vote then precisely as they do now; but if they do not keep their promises, they will be guilty of an immoral act, which may justly be charged on this law. It is the latter proposition only which I am called upon to answer, for if the voters give and keep their promises, no objection can be made to the ballot on that account; it may be said to be useless, but cannot be proved to be pernicious. And with respect to the immorality of not keeping promises, the guilt would lie with those who exacted such unlawful promises. To make a promise of a vote which could not be conscientiously given, would be a crime, but it would be a still greater crime to keep it. The promise is unnecessary upon any other supposition than that of its not being right to perform it. What occasion to exact a promise of any man to do that which his own interest will lead him to do? and, in giving his vote, he is called upon by duty to act in conformity with his own interest. It may be expedient to instruct such a man,—to enlighten him on the subject of his real interest, but here our efforts should cease, and we become criminal if we induce him to act contrary to the dictates of his own conscience; and, instead of condemning him for breaking a promise so criminally exacted and given, the most enlightened morality would teach and require that such promises should be violated. The law does not recommend or encourage any species of crime or immorality,—it is enacted with a view to correct an evil which is an

insurmountable bar to good government; it requires that every man shall vote according to his conscience without any deceit or subterfuge; and shall such a law be given up, because the enemies of good government may take advantage of the respect with which men ought to regard their promises, in order to subvert it? If the end we have in view be good, we must not be diverted from our purpose by any partial evil which may attend the means by which we are to attain it. All punishment is an evil, but is justified by the good end which it is to accomplish. It might much more rationally be objected to the excise laws that they should not have been enacted, because they offer temptations to crimes which would not have been committed but for those laws. And what shall we say of the laws against usury, and against the exportation of the coin? The end of these laws is bad—they are binding only on the conscientious, and have opened a wide door to the commission of the crimes of fraud and perjury. With these laws on our statute-book, are we to be discouraged from making one, which has the happiness of the people for its object, because it would be immoral (as it is alleged) to break a promise unlawfully and immorally exacted. But, supposing that the breaking of such promises were immoral, would the practice be of long continuance? Would any man persevere in exacting promises, when he found by experience that the promisers did not consider them binding? He would not be tempted to continue an offence with great trouble to himself, as soon as he found that it was unattended with advantage. The immorality, then, to whomsoever it might attach, would soon be at an end, and the law would be efficacious without even this alloy.

One honourable gentleman has observed, that he is prepossessed in favour of open voting, without being able to give any reason why he prefers it. To that honourable gentleman I might answer, that I have a different prepossession from him, and the instinct of my mind would be just as good, as an argument, as the instinct of his. In fact, one mode of voting can be preferred to another only as means to an end; in themselves they are alike indifferent.

To conclude, Sir, the establishment of the ballot would make this House what it ought to be, the real representatives of the electors, and not the representatives of those whose situation gives them a commanding influence over the will of the electors. I am not now considering whether it would be desirable that the elective franchise should be extended, kept on its present footing, or contracted within narrower limits; for on any of these suppositions, the ballot appears to me to be equally expedient. Whoever may be the electors, the representatives should represent them and their interests, and not those whose interests may, on many occasions, be in direct opposition to theirs.

# INDEX.

# INDEX.

*** *n signifies Note at the bottom of the page.*


A.

Accumulation of Capital, effects of the labour required for, on the value of commodities, 16. Effects of, in an early or rude state of society, 16. And in a more advanced state, 17. Capital may be accumulated in two ways. By increased revenue, or diminished consumption, 74, 87. Foreign trade, how conducive to, 75. Evidences of an increase of capital, and of annual production, 88. Effects of, on profits and interest considered, 174-180. Only case, and that temporary, where accumulation of capital may be attended with a fall of profits, 176. Effects of machinery in accumulating capital, 241-2. Table, showing the progress of rent and profit under an assumed augmentation of capital, 376.—See also CAPITAL.

Agriculture, effects of improvements in, on rent, 41. Improvements in, of two kinds, 42. One increasing the productive power of land; the other obtaining its produce with less labour by improvements in machinery, 42. Both lead to a fall in the price of raw produce, 42. Both affect rent, but not equally, 42. Ultimately of immense advantage, but at first may be injurious to landlords, 43, *n*. Capital expended in agricultural improvements becomes amalgamated with the land, and cannot afterwards be separated from it, 158, *n*. Not exposed to the temporary reverses and contingencies to which manufactures are subject, 159. Evil effects of a transition from war to peace on agriculture, 161. Suggestions for their remedy quoted from Encyclopædia Britannica, and approved, 161, *n*. Considerations which lead to the investment of capital in agricultural improvements, 249, *n*. Agricultural improvements no cause of the immediate increase of rents, 251-2. Improvements in, one of the causes of a fall in the exchangeable value of food, 379. Protection to agriculture considered, 459-494. Question "Can the present state of agricultural distress be attributed to taxation?" considered, 487-491. Report of Committee on Agriculture quoted, 481, 484.—See also CULTIVATION and LAND.

America, fallacy of the supposed premium on English currency in America, proved, 319-320.

B.

Ballot, speech of the author in Parliament on the plan of voting by ballot, printed in the Scotsman of 17th July 1824, 559 564.

Banks, the establishment of, deprived the State of the sole power of coining or issuing money, 214. Consequence of the Bank of England issuing too great a quantity of paper, 214-5. Regulations that should be adopted at the Mint and the Bank of England, quoted from the author's "Proposals for an Economical and Secure Currency," 215-8. Provided there be perfect security against abuse of the power, it is immaterial whether paper money be issued by the State or a bank, 218-9. The assistance supposed to be given by the Bank to commerce, by lending money under the market rate of interest, rather a disadvantage than otherwise, 220-1. The superiority awarded by Adam Smith to the Scotch mode of affording accommodation to trade by cash accounts, fanciful, 221. The establishment of a bank, how similar in its effects to the discovery of a mine, 264-5 Effect of Bank restriction bill to remove the salutary checks against an over-issue of notes, 276. Mr Thornton's account of the conduct of the Bank before the restriction, quoted, 276. The Bank of England the great regulator of the country paper, 283. The run on the Bank in 1797 caused by political alarm. 289. Observations on the profits of the Bank of England as they

regard the public and the proprietors of bank stock, 393-454. Banks have no security *on any system* against general panics, 406. Proposal that Government should compel country banks to give some proof of their ability to fulfil their engagements, 409. Public services of the Bank excessively overpaid, and remedy proposed for this evil, 411-23. Quotation from resolutions proposed to Parliament by the governor of the Bank, as to the advantages it derived from the public, 418. Statement of the misapplication of the profits and savings of the Bank, and remedy proposed, 423-435. Table showing the profits and surplus capital of the Bank from 1797 to 1816, 427. Difference between a Bank and all other trades is, that the real advantage of the former never commences until it employs the capital of others, 431. Table showing the amount annually received by the Bank, from 1797 to 1815, for receiving contributions on loans, 437. Estimate of the profits of the Bank of England in different years, 439-451. Resolutions proposed concerning the Bank of England by Mr Grenfell, 451. Resolutions proposed by Mr Mellish, 452-4. The rate of interest cannot be controlled by any bank, 474. Representation, in 1819, by the directors of the Bank of England laid before the Chancellor of the Exchequer, 495-7. Plan for the establishment of a National Bank, 503-512.

Bank Notes, high price of bullion a proof of the depreciation of, 263-301. Statements of the amount of bank-notes in circulation at various periods, 297-9. Remedy for their depreciation, 366. Table showing the average amount of Bank of England notes, including bank post bills, in circulation from 1797 to 1815, 439. Amount of notes of 5*l*., and above that sum, in circulation from 1815 to 1822, 473.—See also Paper Money.

Barton, Mr, his opinion as to the effects of an increased fixed capital on the condition of the labouring class, refuted, 241, *n*.

Blake, Mr, his opinion as to the effects of an increase in paper currency on the value of gold as an exportable commodity, quoted and commented on, 337-9.

Bosanquet, Mr, statement of his objections to the conclusions of the Bullion Committee, 305-7. His alleged facts drawn from the history of the state of exchange considered, 308-322. His alleged facts adduced against the conclusion that a rise in the market above the Mint price of bullion proves a depreciation of the currency, considered, 323-333. His objections to the statement that the balance of payments has been in favour of Great Britain, examined, 334-339. Consideration of his argument to prove that the Bank has not the power of forcing the circulation of notes, 340-4. Consideration of his objections to the proposition, that the circulation of the Bank regulates that of the country banks, 348-53. Consideration of his opinion that years of scarcity and taxes have been the sole cause of the rise of prices, 354-9. His opinion that evil would result from the resumption of cash payments, considered, 360-1. Remarks on his supplementary observations, 363-6.

Bounties, on the exportation of corn lower its price to the foreign consumer, but have no permanent effect on its price in the home market, 181-2. Temporary effects of, in raising the price of corn, considered, 184-7. May cause partial, but not permanent degradation, in the value of money, 186-7. Bounties on the exportation of manufactures will raise for a time their market, but not their natural price, 188-9. Pernicious effect of, in diverting a portion of capital from its natural employment, considered, 189-192. A tax on commodities, to afford a bounty on the production of corn, would raise the relative price of commodities, and lower that of corn, 193-5. A bounty on the production of corn, will produce no real effect on the annual produce of the land and labour of the country, 195. A tax on corn to afford a bounty on the production of commodities, would raise the price of corn, and render commodities cheap, 195. Ruinous effects of bounties on production, in conjunction with a free foreign commerce, 196.

Buchanan, Mr, his observations on Adam Smith's theory of productive and unproductive labour, quoted, 40, *n*. Quoted as to relief of the poor, 58, *n*. His objections to Adam Smith's opinion on the effect of a direct tax on the wages of labour, 129-133. His mistake in considering corn and raw produce at a monopoly price, because they yield a rent, exposed, 151. His erroneous statement that the produce of land cannot be increased if the demand increases, 152, *n*. His contradictory opinions as to the effects of taxes on malt and bread placed in juxtaposition, 153. His judicious remarks on the fallacy of Adam Smith's arguments respecting bounties, 189. Incorrect views of, as to the influence of a rise in the price of labour on manufactured commodities, 189-190. His remarks on the cause of the drain of the specie from the Bank, 215. His remark on variations in the relative value of gold and silver currency, 224. Some of his opinions as to rent, quoted, and approved of, 243.

Bullion, high price of, a proof of the de-

preciation of bank notes, 263-301. Evils of prohibiting the melting or exportation of coin, and at same time allowing the exportation of bullion, 265-326. Effects of the debasement of the coinage on the price of bullion, 273. Causes of the excess of the market over the Mint price of gold and silver bullion, considered, 277, and *n.*—See also GOLD and SILVER.

Bullion Committee, statements of the amount of bank notes in circulation, and the rates of Hamburgh exchange contained in the appendix to their report, 297-9. Mr Bosanquet's objections to their conclusions stated, 305-7. Causes of the low exchange stated, and remedy proposed by them, 312. Examination of their statement concerning the par of exchange, 321-2.

C.

Capital, nature of that which is necessary in an early state of society, 16. Effects of the accumulation of, on the relative value of commodities—in a savage state of society, 16, and in a more advanced state, 17. Classed under the heads of circulating and fixed capital, 21. This division not essential, 21, *n.* Their employment and relative powers of production explained and considered, 21-25. Effects of the unequal durability of, on the value of commodities, 25-28. Circulating capital of the monied class, how employed, 47-49. How the desire to employ it advantageously, affects the price of commodities, 47, 48, 49. Definition of, 51. Increase of, in quantity and value, raises the natural and market prices of labour, 51. Increase of, in quantity, but not in value, raises the market price of labour only, 51. Relative increase of capital and population in countries differently situated, considered, 53-54. Capital may be accumulated in two ways—by increased revenue, or diminished consumption, 74, 87. Foreign trade, how conducive to the accumulation of, 75. Causes which check the efflux of, 77. Difficult to define where the distinction between circulating and fixed capital begins, 87. Evidences of an increase of, 88. Taxes not necessarily taxes on capital or income, because laid on these respectively, 88. Illustration of this principle, 88. Impolicy of taxes inevitably falling on, 89. The loss to a country sustained by employing a portion of its capital unproductively, the sole disadvantage of retaining gold and silver in it by prohibitory laws, 139. Capital expended in increasing the productive powers of land becomes amalgamated with, and cannot afterwards be separated from it, 158, *n.* Not so difficult to withdraw a circulating as a fixed capital from the employment in which it is engaged, 161. Effects of the accumulation of, on profits and interest, 174-180. No limits placed by nature to the amount of capital that may be employed in procuring "the conveniences and ornaments of life," 177. Inequality of profit always the inducement to remove capital from one employment to another, 185. Pernicious effect of high duties on importation, or of a bounty on exportation, in diverting a portion of capital from its natural employment, 189. The profits made by the employment of capital regulate the rate of interest for money, 220. The demand for labour depends on the increase of circulating, and not of fixed capital, 241, *n.* Profits can only be lowered by a competition of capitals, not consisting of circulating medium, 286. Table showing the progress of rent and profit under an assumed augmentation of capital, 376.—See also ACCUMULATION of CAPITAL.

Capitalists.—See STOCKHOLDERS.

Carrying Trade, origin and nature of, considered, 177-8.

Cash Accounts, the superiority of this, the Scotch mode of affording accommodation to trade, doubted, 221.

Causes and effects of sudden changes in the channels of trade considered, 159-164.

Circulation, why a circulation of money can never be so abundant as to overflow, 213-4, 285. Depreciation of a circulating medium the necessary consequence of its redundance, 270. Cause of uniformity the cause of goodness in the medium of circulation, 397-400.

Circulation of Paper.—See PAPER MONEY.

Coin, evils of prohibiting the melting or exportation of coin, and at same time allowing the exportation of bullion, 265, 326. Law ineffectual to prevent the melting and exportation of gold coin, 265, 279, 301, 323-6.—See also GOLD and SILVER, and MONEY.

Colonial Trade, observations on, 204-9. Injustice of mother countries towards their colonies, by restricting their trade, 204. A mother country may be more benefited by the restraints she lays on her colonies, than by a free trade, 204-7. Disadvantages of a monopoly of the colony trade, 208-9.

Commerce, a free system of, how beneficial to the civilized world, 75-76. All commerce, both foreign and domestic, really a trade of barter, 137. Effects of commercial treaties considered, 205-7.—See also COLONIAL TRADE, FOREIGN TRADE, FREE TRADE, and TRADE.

Commodities, utility not the measure, though absolutely essential to the exchangeable value of, 9. Commodities possessing utility derive value from scarcity, and the quantity of labour required to obtain them, 9. The value of some determined by scarcity alone, 9. The real price of every thing as defined by Adam Smith, 10. Insufficiency of gold and silver as a medium for determining the variable value of other commodities, 11. Corn or labour no less variable a medium than gold and silver, 11, 253. Effects of improvements in machinery on the value of, 12. Effects of the accumulation of capital on the value of, 17. Economy in labour reduces the value of, 18. Those having the same quantity of labour bestowed on them will differ in exchangeable value if they cannot be brought to market in the same time, 24. The price of those on which durable capital is employed varies inversely as wages, 28. The prices of those produced chiefly by labour vary according to the quantity of labour expended upon them, 28. Gold, a commodity obtained under the same contingencies as every other, and requiring labour and fixed capital for its production, 28, 263. The exchangeable value of, regulated by the quantities of labour necessarily bestowed on their production under the most unfavourable circumstances, 37, 38. Natural and market price of, distinguished, and how affected by the circulating capital of the monied class, 47, 48, 49. A rise of wages not necessarily productive of a rise in the price of commodities, 57. A diminution in wages raises profits, but has no effect on the price of commodities, 75. The same rule which regulates the value of commodities in one country, does not regulate the value of those exchanged between two or more, 75. Why the prices of home commodities are higher in those countries where manufactures flourish, 81. Evils of prohibiting a free trade in precious metals when the prices of commodities are raised, 138. Commodities are at a monopoly price when no device can augment their quantity, 150. A tax on, to afford a bounty for the production of corn, would make corn relatively cheap, and manufactures dear, 193-195. A tax on corn for a bounty on the production of commodities, would have the opposite effect, 195. The cost of production regulates the price of commodities, 232-250. Monopolised commodities vary in value, and why, 234. Effects of machinery in reducing the price of commodities, 242. The production of corn encouraged by a rise in its market, and not in its real price, 253. Objections to the use of a standard commodity considered, 400-2. Commodities generally, can never become a standard to regulate the quantity and value of money, 401. Effects of taxes on a particular commodity, considered 463-5.

Consumers, they, and not the growers, pay taxes on raw produce, 91.

Corn, or labour as a medium of value, as variable and insufficient as gold and silver, 11, 253. Fluctuations to which corn is subject, 11. Influence of the prices of, on rent, 40. A rise in the price of corn which increases the money wages of the labourer, diminishes the money value of the farmers' profits, 62. A country enabled to manufacture commodities with much less labour than her neighbours, may, in return for these commodities, take a portion of the corn she requires, though more fertile, and producing corn with less labour than that from which she imports it, 77, *n.* The prices of corn and labour will be relatively higher in a country excelling in manufactures, so as to occasion an influx of money, than in any other, 83. Corn rents materially affected both by tithes and a money tax, 104. A temporary restriction on the importation of, when advisable, 161-2. Advantage resulting from a relatively low price of corn, 163. Effects of a low price of corn on wages and profits, 163. Bounties on the exportation of, lower its price to the foreign consumer, but have no permanent effect on its price in the home market, 181-2. Temporary effects of a bounty on its exportation, in raising its price, 184-7. A bounty on its production raised from a tax on commodities, would make corn relatively cheap and manufactures dear, 193-195. A bounty on the production of commodities raised from a tax on corn would have the opposite effect, 195. A bounty on the production of, would have no real effect on the annual produce of the land and labour of the country, 195. Benefit of a high price of, to landlords, 202-3. Investigation of the comparative value of gold, corn, and labour, 226-9. A fall in the value of corn not so beneficial to stockholders as to farmers, manufacturers, and other employers of labour, 258-9. Loss of rent the effect of a low price of corn, 259. Importation of foreign corn considered, 259-260. Essay on the influence of a low price of corn on the profits of stock, 371-390. A remunerating price of corn considered, 459-461. Influence of a rise of wages on the price of corn, 461-3. Effect of abundant crops on the price of corn, 465-7. Effect produced on the price of corn by Mr Peel's bill for restoring the ancient standard, 467-475. Effects of

a low value of corn on the rate of profits, 475-8. Under a system of protecting duties giving the monopoly to the home-growers of corn, prices must be fluctuating, 478-486. Project of advancing money on loan to speculators in corn at a low interest, considered, 486-7. Quantities of oats, wheat, and wheat flour imported from Ireland from 1818 to 1821, 490. Account of the corn that arrived in the port of London from ports in Great Britain and Ireland, from 1817 to 1822, and of the quantities sold in Mark Lane from Nov. 1818 to Nov. 1822, 498.

Cultivation, discouraged by a tax on the rent of land, 102. Not discouraged more by tithes and taxes on land and its produce, than by other modes of taxation, which raise the exchangeable value of any commodities in very general demand, 105-9. Tendency to discourage both cultivation and production, an evil inseparable from all taxation, 109.—See also Agriculture and Land.

Currency,—Exchange ascertained by estimating the value of the currency of one country in that of another, 84. The currency may as effectually be increased by paper as by coin, 214. Extracts from the author's pamphlet, entitled, "Proposals for an Economical and Secure Currency," 215-8. A currency is in its most perfect state when it consists wholly of paper money of an equal value with the gold it professes to represent, 218. Tendency of the law against the exportation of coin, to depreciate the currency, 265-328. A redundant currency the only temptation to export money for goods, 267-8. Exchange affords a tolerably accurate criterion of the debasement of the currency, 274. The depreciation of our currency no cause of the high price of the funds, 287. Different effects of its depreciation, on the value of land, and on that of the funds, 287. Remedy proposed for evils in the currency, 287, 300-1, 366. Consequences that would follow the diminution or increase by one-half of the currencies of other countries (exclusive of England), demonstrated, 326-8. Proposals for an economical and secure currency, 393-454.—See also Gold and Silver, and Paper Money.

D.

Debt.—See National Debt.

Decker, Sir Matthew,—his opinion (approved by Adam Smith), that certain taxes are repeated and accumulated four or five times, is absurd, 140-1.

Demand and Supply. The effect of, on prices only temporary, 232. Opinion of M. Say on this subject, quoted, 233. That of Lord Lauderdale, quoted, 233-4. Strictures thereon, 234. The demand for labour depends on the increase of circulating and not of fixed capital, 241, *n.*

De Tracy, M.,—correct in saying that labour is a common measure of the relative value of its products, 171-2. Has fallen into the same error as M. Say as to the definitions of value, riches, and utility, 171, *n.*

Distress. Whether the present state of agricultural distress can be attributed to taxation, considered, 487-491.

Dividends. Remedy proposed for the mercantile inconvenience caused by the quarterly payments of, to the public creditors, 410-1.

Duties.—See Taxes.

E.

Economy, in labour, reduces the relative value of a commodity, 18. Illustrations of this principle, 18.

Edinburgh Review,—Quotation from vol. v. on the subject of a bounty on the exportation of corn, 182. Argument in vol. i., p. 183, that an increase in the paper currency will raise the paper but not the bullion price of commodities, combated, 270, *n.* Edinburgh Reviewers mistaken in supposing that the exportation or importation of bullion takes place without reference to exchange, 275. The principles laid down in the Review of the author's pamphlet on the High Price of Bullion, examined and controverted, 291-301.

Encyclopædia Britannica. Quotation from article "Corn Laws and Trade" as to withdrawal of capital from poor soils, 161, *n.* The same article quoted as to the advantages of Free Trade, 191, *n.* Essay on the Funding System written by the author for the Supplement to the sixth edition of, 515-548.

Exchange,—the rate of, no criterion of the increased value of money, 83-84. Ascertained by estimating the value of the currency of one country in the currency of another, 84. May be ascertained also by comparing it with some standard common to both, 84. When exchanges between countries are at par, 138. The effect of the exchange would counterbalance the effect of high prices caused by detaining gold and silver in a country by prohibitory laws, 139. Effects on exchange, of the debasement of the gold and silver currency by clipping, or of a depreciation of paper money, 273-4. Statements of the rate of exchange with Hamburgh at various periods, 298-9. How an unfavourable exchange may be ultimately corrected, 301. The variations of exchange with foreign countries can never

for any considerable time exceed the expense of transporting and insuring the precious metals, 306. Exchange with Hamburgh considered, 308-315. Exchange with Paris considered, 316-9. Fallacy of the supposed premium on English currency in America, proved. 319-320. Causes of the favourable exchange with Sweden explained, 320-1, and *n.* The par of exchange between two countries, one using gold and the other silver as a principal measure of value, cannot be estimated without taking into account their relative value, 310-322.

Exportation. Bounties on the exportation of corn lower its price to the foreign consumer, but have no permanent effect on its price in the home market, 181-2. Temporary effects of bounties on, in raising the price of corn, considered, 184-7. Bounties on the exportation of manufactures, raise their market, but not their natural price, 188-9. Pernicious effect of a bounty on the exportation of manufactures or corn stated, 189. Evils of prohibiting the melting or exportation of coin, and at same time allowing the exportation of bullion, 265, 326. Depreciation of the circulating medium counteracted by the exportation of the precious metals, 270. Law ineffectual to prevent the melting and exportation of gold coin, 265, 279, 301, 323-6.

F.

Farmers, a rise in the price of corn, which increases the money wages of the labourer, diminishes the money value of the farmer's profits, 62. Rent always falls on the consumers, and not on the farmers, 63. Interest of, to keep the price of raw produce low, 63, 188, 477. A tax on the farmer's profits how beneficial to the landlord, 126-7. Pay more poor rates than manufacturers, in proportion to their respective profits, 157. Injurious effects on the condition of the farmer, of the constantly fluctuating prices of corn under a system of protective duties, 477-486.

Foreign Trade, effects of an extension of, 72. Proofs that the profits of a favoured trade will speedily subside to the general level, 73-4. Foreign trade, though highly beneficial to a country, has no tendency to raise the profits of stock, unless the commodities imported are those on which the wages of labour are expended, 75.

France, the *taille* in, before the revolution, a tax of the objectionable description, that takes out and keeps out of the pockets of the people, more than it brings to the state, 108. Rates of seignorage in France at different periods, 318, *n.* Duty on the coinage of, and its effect on exchange, 318, *n.*

Free Trade, importance of, to Great Britain, 190, 191, *n.*

Funded Property, the price of, not a steady criterion of the rate of interest, 179, 180. The holders of, how benefited by the low value of corn, 258-9. The funds not indebted for their high price to the depreciation of our currency, 287. Opposite effects of a depreciated currency on the value of land, and of funded property, 287.

Funding System, Essay on the, written by the author for the Supplement to the sixth edition of the Encyclopædia Britannica, 515-548.

G.

Gilchrist, Mr, quotation from his evidence as to the effect of the restriction of the issues of the Bank of England on the issues of the Scotch banks, 348-9.

Gold and Silver, being variable, insufficient as a medium for determining the varying value of other things, 11. Fluctuations to which they are subject, 11. Gold a commodity obtained under the same contingencies as every other, and requiring labour and fixed capital for its production. 28, 263. Gold approaches more nearly to an invariable standard of value than any other commodity, 29. Effects of the discovery of the American mines on the value of, 46. Various advantages they possess as a standard for money, 46. The value of paper money influenced by such causes only as influence the value of gold, 57. Improvements of manufactures in any country tend to alter the distribution of the precious metals among the nations of the world, 78-80. On whom a tax on gold would temporarily and ultimately fall, 114, 118. The market value of gold is ultimately regulated by the comparative facility or difficulty of producing it, 114. Effects of a tax on gold, 115-8. Evils of prohibiting a free trade in precious metals when the prices of commodities are raised, 138-9. Value of gold and silver proportioned to the quantity of labour necessary to produce and bring them to market, 213. The obligation to pay their notes in gold coin or bullion, the only proper control over the abuse of their power by issuers of paper money, 215. A currency is in its most perfect state when it consists wholly of paper money of an equal value with the gold it professes to represent, 218. The use of paper instead of gold substitutes the cheapest for the most expensive medium, 218. Remarks on the employment of these metals in currency, 221-2. Their

relative values at different periods accounted for, 221-4. Inconvenience of using each of the two metals as a legal tender for debts of any amount demonstrated, 223-4. Checks against an excessive quantity of silver coin, 225, *n.* Investigation of the comparative value of gold, corn, and labour, 226-9. Effects of variations in the relative value of gold and silver considered, 270-5. Evident intention evinced by the Legislature to establish gold as the standard of currency in this country, 272. Cause of the trifling rise in the price of gold on the Continent, 328-332. Prices of gold in Hamburgh, Holland, and England at different times, 329. Statement of the advantages of silver over gold as a standard, 403. — See also BULLION, METALS, and MONEY.

Grenfell, Mr, his resolutions proposed to Parliament on the advantages derived by the Bank from the management of the National Debt, and the balances of public money in their hands, quoted, 417-451.

Grenville, Lord, extract from his speech of 15th March 1815, on the impolicy of protection to agriculture, 484.

Gross Revenue, See REVENUE.

II.

Hamburgh, rates of exchange between England and Hamburgh considered, 308-315. Silver, the standard of value in, 311.

Hamilton, Professor, his "Inquiry concerning the rise and progress, the redemption, and present state of the National Debt of Great Britain," quoted, 515-7, 520, 531, 547-8.

Holland, low rates of profits and interest in, accounted for, 175, *n.* Silver the currency of, 329.

Houses, rent of, distinguished into two parts—building rent, and ground rent, 119. Difference between rent of houses and rent of land, 119-120. By whom taxes on houses are borne, 119-120.

Huskisson, Mr, his opinion as to the effect of an increase in the paper currency on the value of gold, as an exportable commodity, quoted and commented on, 337-339. His speech on the state of the finance and sinking fund of 25th March 1813, quoted, 518-9, 526.

I.

Importation, effects of high duties on the importation of corn, considered, 187-192. Pernicious effect of high duties on the importation of manufactures or of corn, stated, 189. Inexpediency of restrictions on importation, considered, 371-390. Quantities of oats, wheat, and wheat flour imported from Ireland, from 1818 to 1821, 490.

Improvements, effects of improvements in agriculture, on rent, 41. Importance of agricultural improvements considered, 43, *n.* Effects of improvements in manufactures, on the distribution of the precious metals, 78-80.

Income, taxes not necessarily taxes on income or capital, because laid on these respectively, 88. Illustrations of this principle, 88. How the objects of an income tax may be obtained without its inconveniences, 94. Tithes a very burdensome and intolerable tax, because they increase with the gross and fall on the net income, 105. Effect of an income tax, if fairly levied, 357.

Interest, effects of the accumulation of capital on profits and interest, considered, 174-180. Low rate of profits and interest in Holland accounted for, 175. Some notion may be formed of the rate of profits, from the market rate of interest, 178. In all countries the State has interfered to prevent a fair and free market rate of, 179. Legal rates of interest in this country at different remote periods, stated, 179. The rate of, though ultimately governed by the rate of profit, is subject to temporary variations from other causes, 179. Causes of these variations considered, 179-180. The price of funded property not a steady criterion of the rate of interest, 179. The rate of interest for money regulated by the rate of profits derived from the employment of capital, 220. The assistance supposed to be given by the Bank to commerce, by lending money under the market rate of interest, rather a disadvantage than otherwise, 220-1. Rate of interest not affected by the abundance or scarcity of money, but of that part of capital not consisting of money, 284. Rate of, cannot be controlled by any bank, 474. Project of advancing money on loan, at a low interest, to speculators in corn, considered, 486-7.

L.

Labour, the original purchase money paid for all things, 10. The foundation of their exchangeable value, except where they cannot be increased by human industry, 10. The quantity of labour bestowed on the production of any object, and the quantity it can command in the market, used by Adam Smith, as if they were equivalent expressions, 11. Labour or corn as variable a medium of value as gold and silver, 11,253. Fluctuations to which it is subject, 12. Effects of improvements in machinery on the value of, 12. The relative value of different qualities of, depends much on the comparative skill of the labourer, and the intensity of the

labour performed, 15. The exchangeable value of commodities is in proportion to the labour bestowed not only on their immediate production, but on all implements, &c., required to assist that labour, 17. Economy of labour, whether in its manufacture or the formation of the capital for its production, reduces the relative value of a commodity, 18. Illustrations of this principle, 18. Unequal effect of a rise in the wages of, on commodities produced by circulating and by fixed capital, 21. No rise in the value of, without a fall of profits, 23. The price of, rises with every difficulty of providing for the maintenance of labourers, 27, *n.* With every rise in the price of, new temptations are offered to the use of machinery, 27, *n.* The quantity of, necessary to obtain the produce of land, regulates the rate of rent, profit, and wages, 31. Adam Smith's theory of productive and unproductive labour considered, 39, *n.* Mr Buchanan's observations thereon quoted, 40, *n.* Natural and market prices of, defined, 50. Increase of capital in quantity and value raises the natural and market prices of labour, 51. Increase of capital in quantity, but not in value, raises the market price of labour only, 51. Causes of the difference between the natural prices of labour in different countries, 52, and *n.* A diminution in the wages of, raises profits, but has no effect on price, 75. The prices of corn and labour will be relatively higher in a country excelling in manufactures, so as to occasion an influx of money, than in any other, 83. Investigation of the comparative value of gold, corn, and labour, 226-9. The demand for, depends on the increase of circulating, and not of fixed capital, 241, *n.*

Labourers, how their happiness and comfort are affected by the relation between the natural and market prices of labour, 51. The supply of, and demand for labourers one of the causes of a rise or fall of wages, 53. A rise in wages not always productive of comfort to, 55-56. Influence of machinery on the interests of the labouring classes, considered, 236-242. When and how the use of machinery may be injurious to their interests, 238.

Land, the division of the whole produce of, between landlords, capitalists, and labourers, the criterion of the rise or fall of rent, profit, and wages, 31. The quantity of labour necessary to obtain the produce of, regulates the rate of rent, profit, and wages, 31. Nature of the rent of, considered, 34. The cultivation of inferior, one of the causes of the origin of rent, 36. Effects of improvements which increase its productive powers, and obtain its produce with less labour, 42. One of the objections to tithes is, that it increases with the gross and falls on the net produce of land, 105. Different modes in which a land-tax may be levied, 107. Capital expended in increasing the productive power of land becomes incorporated with, and cannot afterwards be separated from it, 158, *n.* Examination of Adam Smith's doctrine concerning the rent of land, 197-203. Different effects of a depreciated currency on the value of land, and that of the funds, 287.

Landlords, agricultural improvements, though at first injurious, are ultimately beneficial to, 43, *n.* Difficulty of production, how beneficial to, 44. Illustrations of this, 44, *n.* A tax on rent would fall wholly on, 102-107. As rent is constituted, it would be a tax on the profits of the landlord, and would discourage cultivation, 102. As landlords are compensated by the rise of raw produce, and as wages, and through them profits are affected, they are the class peculiarly exempted from the effect of tithe, and every other land-tax of that kind, 109. A tax on the farmer's profits, how beneficial to the landlord, 126-7. A tax on wages does not fall on the landlords as such, but on the profits of stock, 136-140. So far only as landlords directly employed labour in the expenditure of their revenues, by supporting menial servants, &c., would they be subject to its operation, 140. Have a decided interest in the rise of the natural price of corn, 189, 378. Benefit of a high price of corn to them, 202-3, 378.

Land Tax, virtually a tax on rent, 107. Different modes in which a land-tax may be levied, 107.

Lauderdale, Lord, his theory that the scarcity and monopoly of a commodity increase wealth, controverted, 167. Inconclusive in his arguments as to the effect of the Mint regulation on the relative value of gold and silver, 224-5, *n.* Opinion of, on the influence of demand and supply on prices, quoted and commented on, 233-4.

Legislature, wages should never be controlled by the, 57.

Liverpool, Lord, his Letter to the King on the coinage, quoted, 333.

Loans, observations on loans to the State, 146-9, 180, *n.* Project of advancing money on loan at low interest to speculators in corn, considered, 486-7.—See also National Debt.

Locke, Mr, the inconvenience of employing each of two metals as legal tender demonstrated by, 223. Of opinion that the law forbidding the melting and ex-

porting coin was inoperative, 324. His theory relative to the recoinage in 1696, considered, 332-3.

Luxuries, the advantages and disadvantages of taxes on, stated, 144-5. The only effect of a tax on, is to raise their price, 146. It falls wholly on the consumer, and neither increases wages nor lowers profits, 146.

M.

Machinery, effects of improvements in, on the value of labour, 12. Every rise in the price of labour offers new temptations to the use of, 27, *n.* How beneficial to the public, 27. When wages rise, commodities made by machines fall, and that in proportion to their durability, 27. Effects of improvements in agricultural machinery on the price of raw produce, and on rent, 42. Means of abridging labour, either in the manufacture or conveyance of goods, operate on price, but not on profits, 75. The discovery of, tends to raise the relative value of money, and to encourage its importation, 128. Machinery, and natural agents acting gratuitously, add to a commodity value in use, but not value in exchange, 172-3. Its influence on the interests of the different classes of society considered, 235-242. The author's former views on this subject corrected, 235-237. The use of, though advantageous to landlords and capitalists, often injurious to the interests of the labouring class, 236. When and how injurious to the latter, 238. Advantages of, in accumulating capital and reducing prices, considered, 241-2.

Malt, observations on the tax on, 152-3.

Malthus, Mr. In 1815, his "Enquiry into the Nature and Progress of Rent," and the "Essay on the Application of Capital to Land," by a Fellow of University College, Oxford, presented, nearly at the same moment, the true doctrine of rent, 5. His remarks on the doctrine that the relative values of commodities will be governed by the relative quantities of labour bestowed on their production, 30, *n.* Quoted as to the price of labour being indicative of the wants of society respecting population, 131. Examination of his opinions on rent, 243-249. His exposition of the causes of the rise in price of raw produce in rich and progressive countries, quoted, 250. Wrong in supposing that increase of population, and agricultural improvements are causes of the increase of rent, 250-2. His supposition that the net income of the country is diminished in proportion to its gross income disproved, 256-7. Remarks on his "Inquiry into the Nature and Progress of Rent," and "The Grounds of an Opinion on the Policy of Restricting the Importation of Foreign Corn," 371-390. His definition of the rent of land, 371.

Mansfield, Sir James, his opinion as to the mode of compelling the Governor and Directors of the Bank to produce their books, &c., quoted, 434.

Manufactures, improvements of, in any country tend to alter the distribution of the precious metals among the nations of the world, 78-80. Why the prices of home commodities are higher in those countries where manufactures flourish, 81. Are subject to reverses and contingencies from which agriculture is free, 159. Bounties on the exportation of, will raise for a time their market, but not their natural price, 188. The inconveniences resulting from levying a tax on manufactured commodities at an early period of their manufacture, are greatly magnified, 230-231.

Manufacturers. They pay less poor rates than farmers, in proportion to their respective profits, 157. Have no interest in the rise of the natural price of their commodities, 188. Are benefited while the market price of their productions exceeds their natural price, 189.

Metals, the value of, subject to variations like that of every other commodity, 45. Effects of the discovery of the American mines on the value of, 46. Inconvenience demonstrated, of employing each of two metals as legal tender for debts of any amount, 223-4. Laws which regulate the distribution of the precious metals throughout the world, 270. A circulating medium consisting of two metals, not conducive to the existence of a permanent measure of value, 270.

Mellish, Mr, his resolutions proposed concerning the Bank of England, 452-4.

Mines. The principle which regulates the rent of land governs also that of mines, 45, 199. Value of their produce subject to variation like that of every other commodity, 45. Effects of discovering America and its rich mines, on the value of metals, 46. Improvement in the facility of working the mines of precious metals will diminish the value of money generally, 83. Observations on the rent of mines, 198-200.

Mint, regulations that should be adopted at the Mint, and the Bank of England, 215-8.

Money, not an invariable measure of value, 28. Variations to which it is subject. 28. Effects of variations in the value of, on the price of commodities, 31. A

rise in wages, from an alteration in its value, produces a general effect on price, and none on profits, 31. Variations in its value, however great, do not affect the *rate* of profits, 32. Advantages possessed by gold and silver as a standard for money, 46. Improvements of manufactures in any country tend to alter the distribution of money among the nations of the world, 78-80. Different value of money in different countries accounted for, 81-3. No effect produced on the rate of profits either from the influx or efflux of money, 81. Improvement in the facility of working the mines of precious metals will diminish the value of money generally, 83. The rate of exchange no criterion of the value of, 84. A fall in the value of, one of the causes of the high price of provisions, 94. The demand for, regulated entirely by its value, and its value, by its quantity, 114. The discovery of machinery tends to raise the relative value of money, and encourage its importation, and all taxation to lower it, and encourage its exportation, 128. Low value of, in Spain, prejudicial to its manufactures and commerce, 137. Observations on the rates of interest for, 178-180. The value of, though partially, not permanently degraded by a bounty on corn, 186-7. The quantity of, employed in a country, dependent on its value, 213. Effects of the State charging a seignorage on coining money, 213-4, 225. The establishment of banks deprived the State of the sole power of coining or issuing money, 214. An obligation to pay their notes in gold coin or bullion, the only proper control over the abuse of their power by the issuers of paper money, 215. Temptation to export money in exchange for goods, never arises but from a redundant currency, 267. The rate of interest not affected by the abundance or scarcity of money, but of that part of capital not consisting of money, 284. Adam Smith's distinction between money and revenue, quoted, 284. Commodities, generally, can never become a standard to regulate the quantity and value of money, 401. Project of advancing money on loan at a low interest to speculators in corn, considered, 486-7.—See also Currency, Gold and Silver, Mines, and Paper Money.

Monopoly, definition of monopoly price, 150. On what it depends, 150. Why monopolized commodities vary in value, 234.

Mushet, Mr, his acknowledgment of the inaccuracy of his first tables as to exchange, quoted, 310-1. The principle on which his amended tables are constructed, 310. Objections stated to the accuracy of his amended tables, 311.

N.

National Debt, nature and effects of, considered, 146-150. Melon's definition of the nature and effects of a national debt, as given by Say, quoted, 147. Best mode of diminishing it, considered, 149. No sinking fund can be efficient for diminishing the debt, unless derived from the excess of the public revenue over the expenditure, 149. Mercantile inconvenience resulting from the quarterly payment of dividends to the public creditors, and remedy suggested, 410-411. Table showing the amount annually paid by the public, from 1797 to 1815, for management of the British, Irish, German, and Portuguese debt, 437. Table showing the total amount annually received by the Bank, from 1797 to 1815, for receiving contributions on loans, 437. Table showing the total amount of unredeemed debt on 1st February 1815, 438. Hamilton's "Inquiry concerning the Rise and Progress, the Redemption, and Present State of the National Debt of Great Britain," 515-7, 520, 531. Consideration of the best mode of providing for our annual expenditure in war and peace, and whether a fund raised for the purpose of paying debt will not be misapplied by ministers, 538-548.

Net Revenue.—See Revenue.

Newton, Sir Isaac, his report on the causes of the exportation of silver coin, 333.

P.

Paper Money, value of, influenced by such causes only as influence the value of gold, 57. Circulation of, explained, 214. The currency may as effectually be increased by paper as by coin, 214. Payment in specie not necessary to secure its value, 214. The quantity issued must be regulated according to the value of the standard metal, 214, 403-4. Why the Bank of England was liable to be drained of specie for its paper currency, 214-5. An obligation to pay their notes in gold or bullion, the only proper control over the abuse of their power by issuers of paper money, 215. A currency is in its most perfect state, when it consists wholly of paper money of an equal value with the gold it professes to represent, 218. The use of paper instead of gold substitutes the cheapest for the most expensive medium, 213. Provided there be perfect security against abuse of the power, it is immaterial whether paper money is issued by the State or by banks, 218-219. Illustrations of this, 219-220. Effect of redundancy on the value of paper money, 278. The Bank of England is the great regulator of country paper, 283. Advantages attending the

use of, 397-9.—See also Currency and Money.

Paris exchange between England and Paris considered, 316-9.

Parliamentary Reform, observations on, by the author, printed in the Scotsman of the 24th April 1824, 551-556.

Peace, the commencement of, after a long war, or the commencement of war after a long peace, how productive of distress in trade, 160. The transition from war to peace, how injurious to agriculture, 161.

Pearse, Mr, his statement presented to the Bullion Committee, 298.

Peel, Mr (now Sir Robert), effect of his bill for restoring the ancient standard, on the price of corn, 467-475.

Perceval, Mr, his letter, in 1808, to the Governor and Deputy Governor of the Bank, as to the participation of the public in its advantages, 419. His proposals to the Bank, 420.

Petty, Lord Henry, his speech in 1807 on the accumulation of the sinking fund, quoted, 532-3.

Pitt, Mr, quoted as to the relief of the poor, 58, *n.* Remonstrance of the Bank to Mr Pitt, as to their embarrassment, 277, *n.* His speech, on the sinking fund, of 17th February 1792, 521. Comparison of the effects of his plan, and that of Mr Vansittart, on the sinking fund, 523-6. His speech in 1786 on the sinking fund, 542-3.

Political Economy, principal problem in, to determine the laws regulating the distribution of the earth's produce, 5. Many of the errors in, have arisen from considering an increase of riches and an increase of value as synonymous, and from unfounded notions as to a standard measure of value, 166.

Poor Laws, pernicious effects of, considered, 57, 58, 59. Their evil tendency developed by Mr Malthus, 58. Remedy pointed out, 58.

Poor Rates, nature of, 155. Their operation under different circumstances, considered, 155-8. How levied, 155-6. A much larger amount falls on the farmer than on the manufacturer, in proportion to their respective profits, 157.

Population, increase of, one of the primary causes of the origin of rent, 36. The difficulty of providing food for an augmented population one of the causes of a rise of rent, 40. Improvements in agriculture give a great stimulus to population, 43, *n.* Relative increase of population and capital in countries differently situated, considered, 53-54. The demand of an increasing population, ultimately attended by increased cost of production, one of the causes of the high price of provisions, 94. Price of labour indicative of the wants of society respecting population, 131. Why population increases more rapidly in America than in Europe, 249. Increase of, no cause of the rise of rent, 250.

Precious Metals.—See Gold and Silver.

Price, Adam Smith's definition of real, quoted, 10. Of labour necessarily rises with every difficulty of providing for the maintenance of men, 27, *n.* With every rise in the price of labour new temptations are offered to the use of machinery, 27, *n.* Effects of variations in the value of money, on the price of commodities, 31. A rise in wages from an alteration in the value of money, produces a general effect on price, and none on profits, 31. Of corn is regulated by that produced with the greatest quantity of labour, 40. Rent does not enter as a component part into the price of corn, 40. Effects of agricultural improvements on the price of raw produce, 42. Natural and market price of commodities distinguished, and how affected by the circulating capital of the monied class, 47-8-9. Natural and market prices of labour defined, 50. How the relation between its market and natural prices affect the comfort and happiness of the labourer, 51. Increase of capital in quantity and value, raises the natural and market prices of labour, 51. Increase of capital in quantity, but not in value, raises the market price only, 51. Causes of the difference between the natural prices of labour in different countries, 52, and *n.* The price of commodities on which wages and labour are expended, one of the causes of their rise or fall, 53. A rise in the price of commodities not necessarily produced by a rise in wages, 57. Interest of the farmer to keep the price of produce low, 63, 477. Means of abridging labour, either in the manufacture or conveyance of goods, operate on price, but not on profits, 75. A diminution of the wages of labour raises profits, but produces no effect on price, 75. Explained why the prices of home commodities are higher in those countries where manufactures flourish, 81-3. A tax on raw produce raises its price, 91. Monopoly price considered, 150-1-2-3. Difference between the regulation of the price of corn, and of the price of manufactured commodities, 150. The influence of demand and supply on prices only temporary, 232. The cost of production regulates the real price of commodities, 232-250. Effects of machinery in reducing the price of commodities, 242. A rise in the *market* price of

corn encourages its production, 253. High price of bullion a proof of the depreciation of bank notes, 263-290. Causes of the excess of the market over the Mint price of gold and silver bullion considered, 277, and *n.* Influence of a low price of corn on the profits of stock considered, 371-390. A remunerating price of corn considered, 459-461. Influence of a rise of wages on the price of corn, 461-3. Effect of abundant crops on the price of corn, 465-7. Effect produced on the price of corn by Mr Peel's bill for restoring the ancient standard, 467-475. Injurious effects of the constantly fluctuating prices of corn, 477. Under a system of protective duties giving the monopoly to the home growers of corn, prices must be fluctuating, 478-486.

Produce, the division of the produce of land among landlords, capitalists, and labourers, the criterion of the rise or fall of rent, profit, and wages, 31. The quantity of labour necessary to obtain it, regulates the rate of rent, profit, and wages, 31. Effects of agricultural improvements on the price of raw produce, 42. A rise in the price of raw produce lowers agricultural as well as manufacturing profits, 63. Nature and effects of a tax on raw produce, 91. The price of raw produce rises in proportion to the tax, which thus falls on the consumer, 91-3. Objections to taxing the produce of land considered, and answered, 91-101. A tax on raw produce, and on the necessaries of the labourer, raises wages and lowers profits, 93. One of the objections to tithes is, that they increase with the gross, and fall on the net produce of land, 105. A land tax imposed on all cultivated land is a tax on produce, and will raise its price, 107. Mr Malthus' exposition of the causes of the rise in price of raw produce in rich and progressive countries, quoted, 250.

Producer, remarks on the inconveniencies supposed to result from the payment of taxes by the, 230-1.

Production, agricultural improvements which increase it, though at first injurious, are ultimately beneficial to landlords, 43, *n.* Difficulty of, how beneficial to andlords, 44. Illustration of this, 44, *n.* Tendency to discourage both cultivation and production, an evil inseparable from all taxation, 109. The cost of, ultimately regulates the price of commodities, 232-250.

Profits. No rise in the value of labour, without a fall of, 23. A rise in wages, from an alteration in the value of money, produces a general effect on price, and therefore none on profits, 31. Quantity of labour in obtaining the produce of land, the proper criterion for judging of the rate of profit, rent, and wages, 31. *Rate* of, not affected by variations in the value of money, 32. How affected by the circulating capital of the monied class, 47, 48, 49. A rise in the price of corn, which increases the money wages of the labourer, diminishes the money value of the farmer's profits, 62. Agricultural, as well as manufacturing profits, are lowered by a rise in the price of raw produce, if accompanied by a rise of wages, 63. Proofs that profits depend on the quantity of labour requisite to provide necessaries for labourers on that land, or with that capital, which yields no rent, 65-70. Effects of an extension of foreign trade on profits, 72. Proofs that the profits of a favoured trade will speedily subside to the general level, 73-74. These apply equally to home trade, 75. Foreign trade has no tendency to raise the profits of stock, unless the commodities imported are those on which the wages of labour are expended, 75. Means of abridging labour, either in the manufacture or conveyance of goods, operate on price, but not on profits, 75. In one and the same country profits are always on the same level, but not so between different countries, 76. No effect produced on the rate of, either from the influx or efflux of money, 81. Profits depend, not on nominal, but real wages, 82. A tax on raw produce, and the necessaries of the labourer, raises wages and lowers profits, 93. Taxes on necessaries virtually taxes on profits, 122. Taxes on profits considered, 122-8. A tax on the profits of the farmer, how beneficial to the landlord, 126-7. A tax on wages, in fact, a tax on profits, 136. Effects of a low price of corn on wages and profits, 163. Effects of the accumulation of capital on profits and interest, considered, 174-180. Low rate of profits and interest in Holland accounted for, 175, *n.* Only case, and that temporary, in which the accumulation of capital may be attended with a fall of profits, 176. Extremely difficult to determine the rate of the profits of stock, 178. Some notion of the rate of profits may be formed from the market rate of interest, 178. Inequality of profit always the inducement to remove capital from one employment to another, 185. Profits can only be lowered by a competition of capitals not consisting of circulating medium, 286. Influence of a low price of corn on the profits of stock considered, 371-390. Table showing the progress of rent and profit under an assumed augmentation of capital, 376. Observations on the profits of the Bank of England, 393. Statements as to their misapplication, and remedy proposed

423-435. Table showing the profits of the Bank from 1797 to 1816, 427. Estimate of the profits of the Bank in different years, 439-451. Effects of a low value of corn on the rate of profits, 475-8.

Prohibition. Effects of prohibiting the importation of corn considered, 188-9.

Property. Impolicy of taxes on the transference of, 89. Too much facility cannot be given to the conveyance and exchange of, 89.

Protection. Agricultural protection considered, 459-494. Under a system of protecting duties giving the monopoly to the home growers of corn, prices must be fluctuating, 478-486.

Provisions. Causes of the high price of, 94. 1st, A deficient supply, 94-5. 2d, A gradually increasing demand, ultimately attended with increased cost of production, 95-6. 3d, A fall in the value of money, 96. 4th, Taxes on necessaries, 96-7.

R.

Rent, definition of, 34. The nature of, in the strict sense, and in the popular one, 35. The term, as used by Adam Smith, 34. Circumstances from which it originates, 36. Progress of, considered, 36. Rise of, the *effect* of the increasing wealth of the country, and the difficulty of providing food for its augmented population, 40. Influence of the prices of corn on, 40. Effects of agricultural improvement on, 41, 42, 43. The principle which regulates the rent of land, governs also that of mines, 45. The increasing difficulty of providing an additional quantity of food with the same proportional quantity of labour, which raises rent, also raises wages, 55. Difference between the rise of rent and the rise of wages explained, 55. Always falls on the consumer, and not on the farmer, 63. A tax on, would fall wholly on landlords, and could not be shifted to any class of consumers, 102. A tax on rent, as it is constituted, would discourage cultivation, 102. Corn rents materially affected both by tithes and a money tax, 104. A land tax levied in proportion to, and varying with its rent, is in effect a tax on rent, and falls on the landlord, 107. Of houses distinguished into two parts, building rent, and ground rent, 119. Ground rents, and the ordinary rent of land, not fit subjects for exclusive taxation, 121. Examination of Adam Smith's doctrine concerning the rent of land, 197-203. Examination of Mr Malthus's opinions on rent, 243-9. Neither increase of population, nor agricultural improvements, causes the rise of rent, 250-1. Loss of rent the effect of a low price of corn, 259-260. Table showing the progress of rent and profit under an assumed augmentation of capital, 376.

Revenue. Advantages derived by a country from a large gross, rather than a large net revenue, constantly magnified by Adam Smith, 210, and by M. Say, 210, *n.* Examination of their doctrine, 210-212. The labouring classes have an interest in the manner in which the net income of the country is expended, 239. A diminution of gross, not necessarily followed by a diminution of net income, 256-8. Adam Smith's distinction between money and revenue, 284.

Riches, definition of, 165. Difference between value and riches explained and considered, 165-173. May be increased in two ways,—by employing a greater portion of revenue for the maintenance of productive labour, thereby adding to the quantity and value of commodities; or by making the same quantity of labour more productive, thereby adding to the abundance of commodities, but not to their value, 168. Why the last mode of increasing them is preferable, 168-9. Erroneous views of M. Say in regard to value and riches, considered, 169-173.

S.

Say, M. "Economie Politique" cited, 6. Quoted as to the use of natural agents, 35, *n.* As to the regulation of price 38, *n.* His opinion that taxes on the transference of property are impolitic, 89. His mistaken views of the nature and effects of the English land tax considered and corrected, 110-1. His error as to taxes in kind, rectified, 111-2. His erroneous opinion that the price of corn influences the price of *all* other commodities, 136, *n.* His maxim as to the best plans of finance and taxation, quoted and commended, 141-5. His remarks as to the operation of taxes on commodities, quoted, 142-3-6, *notes.* His opinion as to the effect of credit, quoted and controverted, 150, *n.* Fallacy of his argument, that taxes on raw produce fall on the landlord, 153-4. Overstates the advantages of commerce, 160, *n.* False inference he has drawn as to the value of silver, 166, *n.* Remarks on the fallacy and inconsistency of his views as to value and riches being synonymous, 169-173. Overlooks the essential difference between value in use, and value in exchange, 172-3. His reasoning on the inconvenience of public loans, inconclusive, 180, *n.* Wrong in supposing that prohibition of importation enables producers at home permanently to raise the market over the natural price, 190-191, *notes.* His contradictory opinions as to the profits of

home and foreign trade, 191-2, *notes*. Magnifies (as does also Adam Smith) the advantages of a large gross rather than a large net revenue, 210, *n*. Observations on his overstatement of the inconveniences of taxes paid by the producer, 230-1. His opinion on the influence of demand and supply on prices, quoted, 233. Mistaken in his view of gross and net produce, 256, *n*.

Scarcity. One of two sources of the exchangeable value of *useful* commodities, 9. The value of some commodities determined by scarcity alone, 9.

Scotsman. Observations of the author on Parliamentary Reform, printed in the Scotsman of the 24th April, 1824, 551-556. Speech of the author in Parliament, on the plan of Voting by Ballot, printed in the Scotsman of 17th July 1824, 559-564.

Seignorage. Effects of the State charging a seignorage on the coining of money, 213-4, 225. Rates of seignorage in France at different periods, 318, *n*. Observations on the principles of, 345-7. Limits beyond which a seignorage cannot be advantageously extended, 345.

Silver.—See GOLD and SILVER.

Simonde, M., remarks on the opinion of, as to the inconveniences attending a tax paid by the producer, 231.

Sinking Fund. None can be efficient for diminishing the national debt, unless derived from the excess of public revenue over expenditure, 149. How managed in England, 219. Account of the rise, progress, and modifications of the Sinking Fund, with observations as to the probability of its accomplishing the object for which it was instituted, 515-538. Mr Huskisson's speech of 25th March 1813, on the state of the finance and Sinking Fund, 518-9. Mr Pitt's speech of 17th February 1792, on the Sinking Fund, 521. Effect of Mr Vansittart's plan, on the Sinking Fund, 523, *n*. Comparison of the plans of Mr Pitt and Mr Vansittart, 523-6. Lord Henry Petty's speech in 1807, on the accumulation of the Sinking Fund, 532-3. Mr Pitt's speech in 1786, on the Sinking Fund, 542-3. The Sinking Fund has greatly increased the debt instead of diminishing it, 545. Mr Vansittart's speech in 1813, on the Sinking Fund, 546-7.

Smith, Dr Adam, not having viewed correctly the principles of rent, has, in consequence, overlooked many important truths, 5. His definition of value, 9. His definition of real price, 10. Corn or labour, his standard measure of value, alleged to be as variable as gold and silver, 11. Incorrect in saying that labour alone, never varying in its own value, is the sole ultimate, and real standard, 12. His doctrine correct, that the proportion between the quantities of labour necessary for acquiring different objects, is the only circumstance which can afford any rule for exchanging them, 13. Quoted as to the difficulty of ascertaining the proportion between different quantities and sorts of labour, 15, *n*. His statement, that the proportion between different rates of wages and profits, is not much affected by revolutions in the public welfare, quoted, 15. His doctrine, that a rise in the price of labour is uniformly followed by a rise in the price of all commodities, unsound, 30. Strictures on his definition of rent, 34. His theory of productive and unproductive labour considered, 39, *n*. Mr Buchanan's observation thereon, 40, *n*. Cited, 49, 72. His opinion that taxes on the transference of property are oppressive, 89. His four maxims, to which all taxes should conform, 107-8. His erroneous view of taxes on the produce of land, corrected, 108-9-10. His opinion that ground rents, and the ordinary rent of land are fit subjects for peculiar taxation, quoted and objected to, 120-1 His opinion as to the immediate effect of a tax on the wages of labour, 129. Mr Buchanan's objections thereto confuted, 129-133. Though correct in his view of the immediate, is incorrect in his view of the eventual, operation of a tax on wages, 133-6-140. Correction of his mistaken view of taxes on necessaries, 140. Ably explains the disadvantage of a low value of the precious metals proceeding from forced abundance, 137. His argument just, that the labouring classes cannot materially contribute to the burdens of the State, 141. Correct in his statement, that the malt tax falls on the consumer, 152-3. Mr Buchanan's remarks thereon, 153. Quoted as to the difference between the real and the nominal price of commodities and labour, 166, *n*. Gives an incorrect, as well as a correct description of riches, 168. Cites Holland as affording an instance of the fall of profits from the accumulation of capital, without considering her peculiar position, 175. Wrong in saying that when the produce of any particular branch of industry exceeds the demand, the surplus must be sent abroad, 175, *n*. Mistaken as to the origin of the carrying trade, 177-8. Quoted as to the difficulty of determining the rate of profits, 178. Remarks on his objectionable doctrines, as to bounties on exportation and prohibitions of importation, 183-9. Falls into error from thinking that the money price of corn regulates that of all other home made commodi

ties, 185. His correct account of the nature of value, 186. Right in saying that a bounty causes a partial degradation in the value of money, 186. Wrong inference he has drawn from the great difference existing between corn and other goods, 188. Strictures on his doctrine concerning the rent of land, 197-203. Has admirably explained the principle of rent, when treating of mines, but has not applied the same to land, as he should have done, 199. Observations on the evils of a monopoly of the colony trade, 204. He overrates those evils, 208. Quoted as to the effect of treaties of commerce, 205. Constantly magnifies the advantages derived by a country from a large gross, rather than a large net revenue, 210. His argument fallacious, that though the returns of the foreign trade of consumption be as quick as the home trade, the former gives but half the encouragement to the industry or productive labour of the country, 212. Strictures on his principles of paper currency, 214-5. The superiority he awards to the Scotch mode of affording accommodation to trade by cash accounts, fanciful, 221. Not aware of the inconvenience of employing each of two metals in currency as legal tender for debts of any amount, 223-4. Examination of his doctrine relative to the comparative value of gold, corn, and labour in rich and poor countries, 226-9. His error in supposing the value of corn to be constant, 227. Quoted as to the foundation of the high price of precious metals, 263. His distinction between money and revenue, 284. Quoted as to the pernicious effects of a State disguising its bankruptcy by debasing its coin, 288-9. Quoted as to the duty for coinage in France, 318, *n.* His principle, that the paper money of every kind which can easily circulate in a country can never exceed the value of the gold and silver, of which it supplies the place, 344.

Spain, low value of money in, prejudicial to its manufactures and commerce, 137.

Specie.—See Gold and Silver, and Money.

Stamp Duties, the levying of, impolitic, as a tax on the transference of property, 89-131.

Standard, an invariable standard of value imaginary, 41-2. Objections to the use of a standard commodity considered, 400-2. Imperfections of the standard, 402-403. Effects of variations of the currency below the standard, without allowance for the countervailing variations above it, 403. Correspondence with the standard, the rule for paper money, 403-4. Effect of Mr Peel's bill for restoring the ancient standard, on the price of corn, 467-475.

Stock, essay on the influence of a low price of corn on the profits of stock, 371-390.

Stockholders, less benefited than farmers and manufacturers by the low value of corn, 258-9. Remedy proposed for the mercantile inconvenience caused by the quarterly payments of dividends to the public creditors, 410-11.

Steuart, Sir James, quoted as to testing the value of the currency by exchange, 275.

Supply and Demand.—See Demand and Supply.

Sweden, causes of the favourable exchange with Sweden considered, 320-1, *n.*

T.

Taxes, on what, the ability to pay them depends, 7. Their nature, and from what sources they are ultimately paid, 87. In what the great evil of taxation consists, 88. Taxes not *necessarily* taxes on capital or income, because laid on these respectively, 88. Illustrations of this principle, 88. Impolicy of taxes inevitably falling on capital, 89. Of this nature are taxes on the transference of property, borrowed money, and legal proceedings, 89. On whom and what, such taxes generally fall, 89. Facility of their collection some compensation for their injurious effects, 90. Nature and effects of a tax on raw produce, 91. A rise in price, the only means by which the cultivator can pay this tax, 91. It thus falls on the consumer, 91-3. Objections to this tax considered and answered, 91-101. A tax on raw produce, and on the necessaries of the labourer, raises wages and lowers profits, 93. Taxation either must act on profit, or other sources of income, or it must act on expenditure, 98. Taxes on the profits of stock applied directly or indirectly, provided all other income be taxed, have this advantage over others, that no one can escape them, and each contributes according to his means, 98. A tax on rent would fall wholly on landlords, and could not be shifted to any class of consumers, 102. A tax on rent, as it is constituted, would discourage cultivation, 102. Nature of tithes, and difference between them, and taxes on rent, and on raw produce, 104. Tithes an equal tax, 104. Corn rents materially affected both by tithes and a money tax, 104-5. Objections to tithes, 105-6. Different modes in which a land-tax may be levied, 107. If levied in proportion to, and varying with the rent of land, it is in effect a tax on rent, and falls on the landlord, 107. If imposed on all

cultivated land, it is a tax on produce, and will therefore raise its price, 701. A tax on all cultivated land may be in proportion to its quality and produce, in the same way as tithes, or it may be a fixed tax per acre, 107. The latter contrary to one of the maxims to which all taxes should conform, 107-8. The *taille* in France before the Revolution, a tax of this objectionable description, 108. Tendency to discourage cultivation and production, an evil inseparable from all taxation, 109. On whom a tax on gold would temporarily and ultimately fall, 114-8. Effects of a tax on gold, 115-8. Taxes on houses, by whom borne, 119-120. Ground rents not a fair subject for exclusive taxation, 120-1. Taxes on necessaries, virtually taxes on profits, 122. Taxes on profits considered, 122-128. Tax on the farmer's profits, how beneficial to the landlord, 126-7. All taxation tends to lower the relative value of money, and to encourage its exportation, 128. Effects of taxes on wages, 129. Difference between a tax on necessaries and a tax on wages, 129. The results of a tax on wages, will be the same as those of a direct tax on profits, 129-136. What commodities are the fittest objects of taxation, 144. The advantages and disadvantages of taxes on luxuries stated, 144-5. Effect of taxes to defray the interest of loans, 145. Effect of a tax on luxuries, 146. Nature of poor rates, and their operation under different circumstances, considered, 155-8. High duties on the importation of manufactures or of corn, or a bounty on their exportation, the worst species of taxation, 189. A bounty on the production of corn, raised from a tax on commodities, would make corn relatively cheap and manufactures dear, and *vice versa*, 195. The inconveniences supposed to result from the levying of a tax on manufactured commodities at an early period of their manufacture, are greatly magnified, 230-1. Considerable additions may be made to the taxes of a country without a corresponding increase in its circulating medium, 355. Effects of taxes imposed on a particular commodity, 463-5. Question—Can the present state of agricultural distress be attributed to taxation? considered, 487-491.

Tenants.—See FARMERS.

Thornton, Mr, quoted as to the embarrassment of the Bank, caused by an over issue of notes payable in specie, 267. His error, from confusing an increase in the value of gold and an increase in its money price, exposed, 267-8. Quoted as to the conduct of the Bank before the restriction, 276. Quoted as to the non-depreciation of circulating paper, 278. Quoted as to the inefficiency of the law to prevent the exportation of gold coin, 280. Fallacy of his argument, that the gains of the Bank were in proportion to their notes in circulation, and that no advantage was derived from the public deposits, except that they could thereby maintain more notes in circulation, 412-3.

Tithes, nature of, 104. Difference between them and a tax on rent, 104. They are an equal tax, 104. Difference between them, and taxes on raw produce, 104. Effects of, in different states of society, 104. Corn rents materially affected by, 104-5. Objections to, 1st, they are not a permanent and fixed tax, but increase in value, as the difficulty of producing corn increases; 2d. they increase with the gross, and fall on the net produce of land; and, 3d, they are injurious to landlords, as they act as a bounty on importation, 105-6. They do not discourage cultivation more than an equal amount would do, if raised in any other manner, 105.

Torrens, Colonel, his Essay on the external corn trade quoted, as to the difference between the natural prices of labour in different countries, 52, *n.* The arguments in his Essay on the impolicy of restricting the importation of corn commended, and declared unanswerable, 164, *n.*

Trade. The profits of a favoured trade, whether foreign or home, speedily subside to the general level, 73-5. Illustrations of this principle, 73-5. General causes of sudden changes in the channels of, 159-160. How injuriously affected by the commencement of war after a long peace, or of peace after a long war, 160. A revulsion in, more severely felt in rich, than in poorer countries, 161. Nature and origin of carrying trade considered, 177-8. Importance of free trade to Great Britain, 190-1, *n.* Observations on colonial trade, 204-9. Temptation to export money for goods, termed an unfavourable balance of trade, 267. Two ways in which a country may be benefited by trade, 380-1.—See also CARRYING TRADE, COLONIAL TRADE, COMMERCE, FOREIGN TRADE, and FREE TRADE.

Treaties. Effects of commercial treaties considered, 205-7.

U.

Utility, though not the measure of exchangeable value, essential to it, 9.

V.

Value, the sources of defined by Adam Smith, 9. Utility, though not the measure of, essential to exchangeable value,

9. Exchangeable value of useful commodities derived from their scarcity, and the quantity of labour required to obtain them, 9. Value of some commodities determined by scarcity alone, 9. Corn or labour as variable a medium of value as gold and silver, 11. Effects of accumulation of capital on, 16. Exchangeable value of commodities is in proportion to the labour bestowed, not only on their immediate production, but on that of all the implements and capital required to give effect to the producing labour, 17. Economy in labour reduces the relative value of a commodity, 18. Illustrations of this principle, 18. Effects of a rise in wages on value, 19. The principle that value does not vary with a rise or fall of wages, how modified by the unequal durability of capital, 25. Impossible to have an invariable standard measure of, 28. Gold approaches nearer to an invariable standard of, than any other commodity, 29-46. Variations in the value of money do not affect the *rate* of profits, 32. The value of commodities regulated by the quantity of labour necessarily bestowed on their production under the most unfavourable circumstances, 37. The general rule which regulates the value of raw produce and manufactured commodities, is applicable also to metals, 45. Effects of the discovery of American mines on the value of metals, 46. The same rule which regulates the value of commodities in one country does not regulate the value of those exchanged between two or more, 75. Different value of money in different countries accounted for, 81-3. Improvement in the facility of working the mines of precious metals will diminish the value of money generally, 83. Difference between value and riches explained and considered, 165-173. Machinery, and natural agents acting gratuitously, add to a commodity, value in use, but not value in exchange, 172-3. The value of gold and silver proportioned to the labour necessary to produce and bring them to market, 213. The quantity of money employed in a country must depend on its value, 213. Payment in specie not necessary to secure the value of paper money, 214. Only necessary that its quantity should be sufficiently limited, 214. A currency is in its most perfect state when it consists wholly of paper money, of an equal value with the gold it professes to represent, 218. Investigation of the comparative value of gold, corn, and labour, in rich and poor countries, 226-9. A fall in the value of corn not so beneficial to stockholders, as to farmers and manufacturers, 258-9. The intrinsic value of gold and silver, from what sources derived, 263. Different effects of a depreciated currency on the value of land, and of the funds, 287. Causes of a fall in the exchangeable value of food, 379. Effects of a low value of corn on the rate of profit, 475-8.

Vansittart, Mr, his application, in 1814, to the Bank, in which he alludes to the participation of the public in its advantages, 420. Effect of his plan on the sinking fund, 523, *n.* Comparison of the effects of his plan, and that of Mr Pitt, 523-6. His speech in 1813 on the sinking fund, 546-7.

Voting by Ballot, speech of the author in Parliament on this question, printed in the Scotsman of 17th July 1824, 559-564.

W.

Wages. Effects of a rise in, on relative value, 19. Natural and market rates of wages distinguished, 50-51. Increase of capital in quantity and value, raises the natural and market rates of wages, 51. Increase of capital in quantity, but not in value, raises the market rate of wages only, 51. Causes of the difference between the natural rates of wages in different countries, 52, and *n.* Wages subject to a rise or fall from two causes,—from variation in the supply of and demand for labourers, and from variation in the price of commodities on which wages of labour are expended, 53. The increasing difficulty of providing an additional quantity of food with the same proportional quantity of labour, which raises rent, also raises wages, 55. Illustrations of this principle, 55-6. Difference between the rise of rent, and the rise of wages explained, 55. A rise in wages not always productive of comfort to the labourer, 55-6. A rise of wages not necessarily productive of a rise in the price of commodities, 57. Should never be controlled by the interference of the legislature, 57. The rate of profits can never be increased but by a fall in wages, 75. No permanent fall of wages, but in consequence of a fall of the necessaries on which wages are expended, 75. A diminution in the wages of labour raises profits, but produces no effect on the price of commodities, 75. Profits depend not on nominal but real wages, 82. A tax on raw produce and the necessaries of the labourer, raises wages, 93. Effects of taxes on, 129-136. Difference between a tax on necessaries, and a tax on wages, 129. The results of a tax on, the same as those of a direct tax on profits, 129-136. Effects of a low price of corn on wages

and profits, 163. Influence of a rise of wages on the price of corn, 461-3.

War, the commencement of, after a long peace, or the commencement of peace after a long war, how productive of distress in trade, 160. Evil effects of a transition from war to peace on agriculture, 161. Suggestions for their remedy quoted from the Encyclopædia Britannica, and approved of, 161.

Wealth, a rise of rent always the effect of increasing wealth, 46. The rise of rent is a symptom, but never a cause of, 40. Causes of the increase of, 40-168.

THE END.

*Morrison and Gibb, Edinburgh,*
*Printers to Her Majesty's Stationery Office.*

Duke University Libraries
D00510572K

330.2 R488W 18400